NEW ISSUE
(BOOK-ENTRY ONLY)

RATINGS:
Moody's: Aaa
Standard & Poor's: AAA
Fitch: AAA
See "RATINGS" 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 2012A Bonds and the 2012C Bonds (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. Interest on the 2012B Bonds (the "Taxable Bonds") is not excludable from gross income for federal income tax purposes. In the opinion of Bond Counsel, interest on the Tax-Exempt Bonds and the Taxable Bonds is exempt from present State of Georgia income taxation. See Appendix E and Appendix F herein for the form 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 Tax-Exempt Bonds from gross income, see "LEGAL AND TAX STATUS - Tax Consequences of Owning the Bonds" herein.

$737,040,000
State of Georgia

$520,055,000 General Obligation Bonds 2012A
$79,900,000 General Obligation Bonds 2012B (Federally Taxable)
$137,085,000 General Obligation Refunding Bonds 2012C

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

The captioned bonds (the "2012A Bonds," the "2012B Bonds," and the "2012C Bonds" (collectively, the "Bonds")) will be issued only as fully registered bonds in denominations of $5,000 each or any integral multiple thereof. Interest on the Bonds is payable semiannually as more fully described herein.

The Bonds will be issued in book-entry form registered in the name of Cede & Co., the nominee of The Depository Trust Company ("DTC"), New York, New York. Payments of 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, to be subsequently disbursed to DTC Participants and thereafter to the beneficial owners of the Bonds, all as further described herein. Beneficial owners of the Bonds will not receive physical delivery of bond certificates.

The Bonds are issued by the Georgia State Financing and Investment Commission (the "Commission") for and on behalf of the State of Georgia (the "State") pursuant to powers granted to the Commission in the Constitution of the State of Georgia and the legislative act creating the Commission. The Bonds so issued constitute direct and general obligations of the State for the payment of which the full faith, credit and taxing powers of the State are pledged.

Certain of the Bonds are not subject to optional redemption prior to their maturity and certain of the Bonds are subject to optional redemption prior to their respective maturities, as more fully described herein.

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 King & Spalding LLP, Atlanta, Georgia, Bond Counsel. Certain legal matters will be passed on 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 Bonds in definitive form are expected to be delivered through the book-entry system of DTC in New York, New York on or about July 18, 2012.

The date of this Official Statement is June 21, 2012.

$520,055,000
State of Georgia
General Obligation Bonds 2012A Maturity Schedule

Maturing July 1,	Principal Amount	Interest Rate	Price or Yield	CUSIP (a)	Maturing July 1,	Principal Amount	Interest Rate	Price or Yield	CUSIP (a)
2013	$26,195,000	3.00%	0.19%	373384YC4	2023	$21,160,000	5.00%	2.00%*	373384YN0
2014	27,505,000	5.00	0.32	373384YD2	2024	22,220,000	5.00	2.16*	373384YP5
2015	28,875,000	5.00	0.47	373384YE0	2025	23,330,000	5.00	2.29*	373384YQ3
2016	30,320,000	5.00	0.57	373384YF7	2026	24,495,000	5.00	2.38*	373384YR1
2017	31,840,000	5.00	0.78	373384YG5	2027	25,720,000	5.00	2.47*	373384YS9
2018	19,755,000	5.00	1.05	373384YH3	2028	27,005,000	5.00	2.53*	373384YT7
2019	20,745,000	5.00	1.28	373384YJ9	2029	28,355,000	3.00	97.0	373384YU4
2020	21,780,000	5.00	1.52	373384YK6	2030	29,775,000	5.00	2.67*	373384YV2
2021	22,870,000	5.00	1.72	373384YL4	2031	31,265,000	4.00	3.28*	373384YW0
2022	24,015,000	5.00	1.86	373384YM2	2032	32,830,000	4.00	3.34*	373384YX8

* Priced to the July 1, 2022 optional redemption date.

$79,900,000
State of Georgia
General Obligation Bonds 2012B (Federally Taxable) Maturity Schedule

Maturing July 1,	Principal Amount	Interest Rate	Price or Yield	CUSIP (a)	Maturing July 1,	Principal Amount	Interest Rate	Price or Yield	CUSIP (a)
2013	$3,625,000	0.35%	0.25%	373384YY6	2023	$3,540,000	2.45%	2.41%*	373384ZJ8
2014	3,805,000	0.60	0.53	373384YZ3	2024	3,720,000	2.60	2.56*	373384ZK5
2015	3,990,000	0.80	0.74	373384ZA7	2025	3,905,000	2.75	2.71*	373384ZL3
2016	4,190,000	1.10	1.02	373384ZB5	2026	4,100,000	2.85	2.81*	373384ZM1
2017	4,405,000	1.30	1.27	373384ZC3	2027	4,305,000	2.95	2.91*	373384ZN9
2018	2,775,000	1.65	1.59	373384ZD1	2028	4,520,000	3.05	3.01*	373384ZP4
2019	2,915,000	1.75	1.69	373384ZE9	2029	4,745,000	3.15	3.12*	373384ZQ2
2020	3,060,000	2.00	1.96	373384ZF6	2030	4,985,000	3.20	3.17*	373384ZR0
2021	3,215,000	2.15	2.11	373384ZG4	2031	5,235,000	3.25	3.22*	373384ZS8
2022	3,375,000	2.30	2.26	373384ZH2	2032	5,490,000	3.30	3.27*	373384ZT6

* Priced to the July 1, 2022 optional redemption date.

$137,085,000
State of Georgia
General Obligation Refunding Bonds 2012C Maturity Schedule

Maturing September 1,	Principal Amount	Interest Rate	Price or Yield	CUSIP (a)
2014	$11,605,000	5.00%	0.32%	373384XY7
2021	45,630,000	4.00	1.79	373384XZ4
2022	48,075,000	4.00	1.93	373384YA8
2023	31,775,000	5.00	2.00*	373384YB6

*Priced to the September 1, 2022 optional redemption date.

(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.

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
CASEY CAGLE - President of the Senate
DAVID RALSTON - Speaker of the House of Representatives
SAMUEL S. OLENS - Attorney General
GARY W. BLACK - Commissioner of Agriculture
STEVEN McCOY – State Treasurer
RUSSELL W. HINTON - State Auditor[1]

Financing and Investment Division
SUSAN H. RIDLEY – Director

Construction Division
STEVE STANCIL – Director

State Law Department
SAMUEL S. OLENS - Attorney General

Bond Counsel
KING & SPALDING LLP
Atlanta, Georgia

Disclosure Counsel
KUTAK ROCK LLP
Atlanta, Georgia

Financial Advisor
PUBLIC RESOURCES ADVISORY GROUP
New York, New York

[1] Russell W. Hinton, the State Auditor as of the date of this Official Statement, has announced his intention to retire from State government employment as of June 30, 2012; as provided for in O.C.G.A. § 50-6-1(c), on June 4, 2012 the Governor appointed Greg S. Griffin, the State Accounting Officer as of the date of this Official Statement, to serve as State Auditor effective July 1, 2012 until such time as the General Assembly elects a State Auditor during its next regular session, which will begin on the second Monday in January 2013.

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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.

TABLE OF CONTENTS

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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:	\$520,055,000 General Obligation Bonds 2012A \$79,900,000 General Obligation Bonds (Federally Taxable) 2012B \$137,085,000 General Obligation Refunding Bonds 2012C
Maturity:	The 2012A Bonds mature on each July 1, from July 1, 2013 to July 1, 2032 inclusive. The 2012B Bonds mature on each July 1, from July 1, 2013 to July 1, 2032 inclusive. The 2012C Bonds mature on September 1, 2014 and on each September 1, from September 1, 2021 to September 1, 2023 inclusive. See "DESCRIPTION OF THE BONDS – Redemption Provisions" herein.
Interest:	Interest on the 2012A Bonds and the 2012B Bonds is payable each January 1 and July 1, with the first interest payment due on January 1, 2013, until final payment. Interest on the 2012C Bonds is payable each March 1 and September 1, with the first interest payment due on September 1, 2012, until final payment.
Dated Date:	Date of Initial Delivery.
Delivery Date:	On or about July 18, 2012.
Purpose:	The 2012A Bonds and the 2012B Bonds are being issued to provide funds for various capital outlay projects of the State. See "PURPOSE OF THE 2012A BONDS AND THE 2012B BONDS" herein for details. The 2012C Bonds are being issued to provide funds to refund certain outstanding general obligation bonds of the State. See "PURPOSE OF THE 2012C 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:	King & Spalding 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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$737,040,000
State of Georgia
General Obligation Bonds

$520,055,000 General Obligation Bonds 2012A
$79,900,000 General Obligation Bonds 2012B (Federally Taxable)
$137,085,000 General Obligation Refunding Bonds 2012C

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 2012A (the "2012A Bonds"); (ii) State of Georgia General Obligation Bonds 2012B (Federally Taxable) (the "2012B Bonds"); and (iii) State of Georgia General Obligation Refunding Bonds 2012C (the "2012C Bonds," and together with the 2012A Bonds and the 2012B Bonds, the "Bonds"). The 2012A Bonds and the 2012C Bonds also are referred to herein, collectively, as the "Tax-Exempt Bonds" and the 2012B Bonds also are referred to herein 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 21, 2012 (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 2012A Bonds and the 2012B Bonds will be used to finance various capital outlay projects as described under "PURPOSE OF THE 2012A BONDS AND THE 2012B BONDS" herein. The State currently expects to use the original issue premium, if any, generated from the sale of the 2012A Bonds and the 2012B Bonds to fund all or a portion of various capital projects of the State, including the projects funded by the 2012A Bonds and the 2012B Bonds, retire certain outstanding general obligation bonds of the State coming due within ninety days of the issuance of the 2012A Bonds and the 2012B Bonds, or pay all or a portion of the costs of issuance of the 2012A Bonds and the 2012B Bonds. See "USE OF PREMIUM ON THE 2012A BONDS AND THE 2012B BONDS" herein. The proceeds from the sale of the 2012C Bonds will be used to pay all or a portion of the cost of issuance of the 2012C Bonds and to refund certain outstanding general obligation bonds of the State as described under "PURPOSE OF THE 2012C 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 O.C.G.A. Section 50-17-20, *et seq*., referred to herein as the "Commission Act"). See "SECURITY FOR THE BONDS," "THE COMMISSION" and "APPENDIX A – STATE OF GEORGIA – Debt and Revenue 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 the Taxable Bonds is exempt from present State of Georgia income taxation. See Appendix E and Appendix F herein for the forms of opinion 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 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 opinion of King & Spalding 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 18, 2012, 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 Resolutions may be directed to Susan H. Ridley, 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

Each series of the Bonds will be dated the date of delivery.

Interest on the 2012A Bonds and the 2012B Bonds is payable semiannually on January 1 and July 1 in each year (each an "Interest Payment Date"), commencing January 1, 2013, until final payment. Interest on the 2012C Bonds is payable semiannually on March 1 and September 1 in each year (each an "Interest Payment Date"), commencing September 1, 2012, 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 Tax-Exempt Bonds

The 2012A Bonds maturing on or before July 1, 2022 are not subject to optional redemption. The 2012A Bonds maturing on or after July 1, 2023 will be subject to optional redemption on and after July 1, 2022, in whole or in part at any time at par plus interest accrued thereon to the date fixed for redemption.

The 2012C Bonds maturing on or before September 1, 2022 are not subject to optional redemption. The 2012C Bonds maturing on or after September 1, 2023 will be subject to optional redemption on and after September 1, 2022, in whole or in part at any time at par plus interest accrued thereon to the date fixed for redemption.

Optional Redemption of the Taxable Bonds

The 2012B Bonds maturing on or before July 1, 2022 are not subject to optional redemption. The 2012B Bonds maturing on or after July 1, 2023 will be subject to optional redemption on and after July 1, 2022, in whole or in part at any time at par plus interest accrued thereon to the date fixed for redemption.

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 at the option of the State will be determined by 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 or portions thereof to be redeemed shall be selected on a pro rata pass-through distribution of principal basis 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 State'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 State 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 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 maturity of the Bonds shall be allocated among the registered owners of such bonds on a pro-rata basis. See "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.

The Depository Trust Company, New York, New York, 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 of each series and sub-series, 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 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 of securities 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 and 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, and trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The DTC rules applicable to its Direct and Indirect 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, but 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-only system for the Bonds is discontinued.

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

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of 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, 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 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 the 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 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 securities 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 the State of Georgia 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 the State of Georgia 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 Article VII, Section IV, Paragraph III(a)(1) of the State Constitution. See "APPENDIX A - STATE OF GEORGIA - Debt and Revenue Information," and "APPENDIX C – STATE OF GEORGIA - Basic Financial Statements For Fiscal Year Ended June 30, 2011."

PURPOSE OF THE 2012A BONDS AND THE 2012B BONDS

The State Constitution provides that the State may incur public debt of two types for public purposes: (1) general obligation debt and (2) 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, 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. Upon the payment of bonds due prior to July 1, 2012, the State had general obligation debt outstanding in an aggregate principal amount of $8,584,945,000 and guaranteed revenue debt outstanding in an aggregate principal amount of $403,450,000. See "APPENDIX A - STATE OF GEORGIA - Debt and Revenue Information."

The proceeds of the 2012A Bonds and the 2012B 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: 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; 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; 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 (Act No. 406, 2012 Regular Session, H.B. 741) signed by the Governor on March 15, 2012; and the General Appropriations Act for State Fiscal Year 2012-2013 (Act No. 775, 2012 Regular Session, H.B. 742) signed by the Governor on May 7, 2012.

	2012A Bonds
$321,970,000	To provide projects and facilities for the Board of Regents of the University System of Georgia
2,255,000	To provide public library facilities through the Board of Regents of the University System of Georgia by grants to the governing boards of various public libraries throughout the state
1,325,000	To provide public library facilities through the Board of Regents of the University System of Georgia by grant to the governing board of the Royston Public Library
2,000,000	To provide projects and facilities for the Department of Community Health
3,985,000	To provide projects and facilities for the Department of Juvenile Justice
4,695,000	To provide projects and facilities for the Department of Natural Resources
5,255,000	To provide projects and facilities for the Department of Corrections
4,415,000	To provide projects and facilities for the Department of Defense
61,215,000	To provide projects and facilities for county and independent school systems and state schools through the State Board of Education (Department of Education)
6,400,000	To provide projects and facilities for the Department of Public Safety
4,040,000	To provide projects and facilities for the State Forestry Commission
2,950,000	To provide projects and facilities for the Georgia Building Authority
1,845,000	To provide projects and facilities for the Georgia Bureau of Investigation
20,750,000	To provide loans to local governments and local government entities for water or sewerage facilities through the Georgia Environmental Finance Authority
2,595,000	To provide projects and facilities for the Department of Public Safety (Georgia Public Safety Training Center)
3,370,000	To provide projects and facilities for the Department of Economic Development
60,000,000	To provide projects and facilities for the Georgia Ports Authority
625,000	To provide projects and facilities for the Georgia State Financing and Investment Commission
2,450,000	To provide projects and facilities for the Department of Revenue
7,690,000	To provide projects and facilities for the Technical College System of Georgia
4,040,000	To provide projects and facilities for the State Forestry Commission
6,400,000	To provide projects and facilities for the Department of Public Safety
225,000	To provide projects and facilities for the Department of Veterans Service
$520,055,000	Total 2012A Bonds

	2012B Bonds
$ 8,000,000	To provide projects and facilities for the Board of Regents of the University System of Georgia
50,000,000	To provide projects and facilities for the Department of Community Affairs
7,900,000	To provide projects and facilities for the Department of Transportation
14,000,000	To provide projects and facilities for the Technical College System of Georgia
$79,900,000	Total 2012B Bonds

The Commission Act provides that the Commission shall be responsible for the proper application of the proceeds of the 2012A Bonds and the 2012B Bonds to the purposes for which they are incurred and that the proceeds received from the sale of the 2012A Bonds and the 2012B 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 2012C BONDS – PLAN OF REFUNDING

The State expects to use the proceeds of the 2012C Bonds to pay all or a portion of the cost of issuance on the 2012C Bonds and to refund all or a portion of certain previously issued State of Georgia general obligation bonds. Simultaneously with the issuance of the 2012C Bonds, the Commission will deposit or cause to be deposited a portion of the proceeds derived from the sale of the 2012C Bonds into a special fund (the "Refunding Escrow Fund") created under the terms of an Escrow Deposit Agreement, dated as of July 1, 2012 (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 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 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 REFUNDING MATHEMATICAL COMPUTATIONS – 2012C BONDS" herein.

The table below sets forth the estimated sources and uses of the proceeds of the 2012C Bonds.

Sources of Funds	
Principal Amount of 2012C Bonds	$137,085,000.00
Original Issue Premium	27,395,547.70
Total Sources of Funds	$164,480,547.70
Uses of Funds	
Deposit to Refunding Escrow Fund	$163,918,926.89
Costs of Issuance, Including Underwriter's Discount	561,620.81
Total Uses of Funds	$164,480,547.70

USE OF PREMIUM ON THE 2012A BONDS AND THE 2012B BONDS

The State currently expects to use the original issue premium, if any, generated from the sale of the 2012A Bonds and the 2012B Bonds to fund all or a portion of various capital projects of the State, including the projects funded by the 2012A Bonds and the 2012B Bonds, retire certain outstanding general obligation bonds of the State coming due within ninety days of the issuance of the 2012A Bonds and the 2012B Bonds, or pay all or a portion of the costs of issuance of the 2012A Bonds and the 2012B Bonds.

AUTHORIZED INDEBTEDNESS

On March 27, 2012 the General Assembly adopted H.B. 742, the General Appropriations Act for State Fiscal Year 2012-2013 (FY 2013), and on May 7, 2012 the Governor approved (Act 775) an aggregate principal amount of $808,395,000 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 Act also provided for the repeal of an aggregate principal amount of $15,000,000 of previously authorized but unissued general obligation debt. Prior to the issuance of the 2012A Bonds and the 2012B Bonds as described herein, the State had a total of $1,329,480,000 of authorized unissued general obligation debt from the FY 2013 and prior years' authorizations. See "APPENDIX A - STATE OF GEORGIA – Debt and Revenue 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 - STATE OF GEORGIA - 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 - STATE OF GEORGIA – Basic Financial Statements for Fiscal Year Ended June 30, 2011" 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 - STATE OF GEORGIA - 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.

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 – STATE OF GEORGIA – Debt and Revenue Information - Market Transactions to Retire Debt."

The Commission Act provides that the 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 full and timely payment of principal and interest by the United States government, maturing no longer than 12 months from date of purchase.

The State is authorized under Georgia law to 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, the State currently is investing the monies on deposit in its general fund in (1) direct obligations of the United States Treasury, (2) 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, (3) Repurchase Agreements with dealers and banks that have a minimum of $75,000,000 in capital, provided that the Repurchase Agreements are collateralized by United States government obligations or securities guaranteed by agencies of the United States government with a market value of at least 102% of the Repurchase Agreement, (4) certificates of deposit with a maturity of five years or less that are collateralized by securities with a market value of at least 110% of the certificate of deposit, (5) bankers' acceptances, and (6) commercial paper.

The State also is authorized under Georgia law to invest monies on deposit in its general fund in time deposits with depositories. Pursuant to Georgia law and the Investment Policy, the State requires collateralization of time deposits in an amount equal to 110% of the time deposit.

The State Treasury also manages Georgia's Local Government Investment Pools ("Georgia Fund 1" and the "Georgia Extended Asset Pool"). The local government monies invested in Georgia Fund 1 are commingled with State operating funds in the Georgia Fund 1 portfolio. The Georgia Fund 1 portfolio maintains a Standard & Poor's AAAm rating and a maximum weighted average maturity of 60 days or less. The Georgia Extended Asset Pool consists of core deposits of the State, State agencies, and local governments. The Georgia Extended Asset Pool maintains a Standard & Poor's rating of AA+f and a maximum duration of 18 months. The State Treasury also manages investment portfolios for the Georgia Department of Transportation, the Georgia Lottery's scholarship reserves, and the State Risk Management fiduciary funds.

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

2012A Bonds and 2012C Bonds

Federal Tax Exemption. In the opinion of King & Spalding LLP, Atlanta, Georgia Bond Counsel, under existing law, interest on the 2012A Bonds and the 2012C Bonds (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.

The opinion of Bond Counsel is subject to the condition that the State, acting by and through the Commission (in such capacity, the "Issuer"), complies with all requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied subsequent to the issuance of the Tax-Exempt Bonds, in order that interest thereon be, and continue to be, excludable from gross income for federal income tax purposes. The Issuer has 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.

Collateral Federal Tax Consequences. Bond Counsel expresses no opinion regarding other federal tax consequences arising with respect to the Tax-Exempt Bonds. For example, prospective purchasers should be aware that Section 265 of the Code denies a deduction for interest on indebtedness incurred or continued to purchase or carry tax-exempt obligations or, in the case of a financial institution (within the meaning of Section 265(b)(5) of the Code), that portion of such financial institution's interest expense allocable to tax-exempt interest.

Prospective purchasers of the Tax-Exempt Bonds should be aware that ownership of any Tax-Exempt Bond also may result in collateral federal income tax consequences to certain taxpayers, including, without limitation, financial institutions, insurance companies, individual recipients of Social Security or Railroad Retirement benefits, certain S corporations with "excess net passive income," and foreign corporations subject to the branch profits tax. Bond Counsel will not express any opinion as to such collateral consequences. Prospective purchasers of the Tax-Exempt Bonds should consult their tax advisors as to collateral federal income tax consequences.

Interest on tax-exempt obligations such as the Tax-Exempt Bonds is subject to information reporting to the Internal Revenue Service ("IRS") in a manner similar to interest on taxable obligations. In addition, interest on the Tax-Exempt Bonds may be subject to backup withholding if the payee fails to provide identifying information (such as the payee's taxpayer identification number) in the manner required by the IRS, or if the payee has been identified by the IRS as being subject to backup withholding.

Original Issue Discount. In the opinion of Bond Counsel, under existing law, the original issue discount in the selling price of the 2012A Bond maturing on July 1, 2029, to the extent properly allocable to each owner of such 2012A Bond, is excluded from gross income for federal income tax purposes with respect to such owner. The original issue discount is the excess of the stated redemption price at maturity of such 2012A Bond over the initial offering price to the public, excluding underwriters and other intermediaries, at which price a substantial amount of the 2012A Bonds of such maturity were sold.

Under Section 1288 of the Internal Revenue Code of 1986, as amended, original issue discount on tax-exempt bonds accrues on a compound basis. The amount of original issue discount that accrues to an owner of a Tax-Exempt Bond during any accrual period generally equals (i) the issue price of such Tax-Exempt 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 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 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 Tax-Exempt Bond. Any gain realized by an owner from a sale, exchange, payment or redemption of a Tax-Exempt Bond will be treated as gain from the sale or exchange of such Tax-Exempt Bond.

Premium. An amount equal to the excess of the purchase price of a Tax-Exempt Bond over its stated redemption price at maturity constitutes premium on such Tax-Exempt Bond. A purchaser of a Tax-Exempt Bond must amortize any premium over such Tax-Exempt Bond's term (or to an earlier call date if required) using constant yield principles, based on the purchaser's yield to maturity (or to an earlier call date if required). As premium is amortized, the purchaser's basis in such Tax-Exempt Bond is reduced by a corresponding amount, resulting in an increase in the gain (or decrease in the loss) to be recognized for federal income tax purposes upon a sale or disposition of such Tax-Exempt Bond prior to its maturity. Even though the purchaser's basis is reduced, no federal income tax deduction is allowed. Purchasers of any Tax-Exempt Bond at a premium, whether at the time of initial issuance or subsequent thereto, should consult their own tax advisors with respect to the determination and treatment of premium for federal income tax purposes and with respect to state and local tax consequences of owning such Tax-Exempt Bond.

2012B Bonds

***Notice Pursuant to IRS Circular 230*. This discussion was not intended or written to be used, and cannot be used by any taxpayer, for the purpose of avoiding penalties that may be imposed on the taxpayer. This discussion was written to support the promotion or marketing of the Taxable Bonds. Each taxpayer should seek advice based on the taxpayer's particular circumstances from an independent tax advisor.**

Federal Tax Exemption. Interest on the 2012B Bonds (the "Taxable Bonds") is not excludable from gross income for federal income tax purposes.

The following is a summary of certain U.S. federal income tax consequences relating to the purchase, ownership and disposition of the Taxable Bonds. It does not provide a complete analysis of all potential tax considerations relating to the purchase, ownership and disposition of the Taxable Bonds.

This summary is based on the provisions of the Code, the applicable Treasury Regulations, judicial authority and administrative rulings and practice, all of which are subject to change, possibly retroactively, or to different interpretation.

This summary applies only to initial purchasers of the Taxable Bonds that are "U.S. holders" (as defined below), that acquire the Taxable Bonds at their original issue price within the meaning of Section 1273 of the Code and hold the Taxable Bonds as capital assets. A capital asset is generally an asset held for investment rather than as inventory or as property used in a trade or business. This summary does not discuss all of the aspects of U.S. federal income taxation which may be relevant to investors in light of their particular investment or other circumstances. This summary also does not discuss the particular tax consequences that might be relevant to investors that are subject to special rules under the federal income tax laws. Special rules apply, for example, to trusts; estates; tax-exempt investors; foreign investors; banks, thrifts, insurance companies, regulated investment companies, or other financial institutions or financial service companies; brokers or dealers in securities, commodities or foreign currency; U.S. persons that have a functional currency other than the U.S. dollar; partnerships or other flow-through entities; real estate investment trusts, financial asset securitization investment trusts, subchapter S corporations; persons subject to alternative minimum tax; persons who own the Taxable Bonds as part of a straddle, hedging transaction, constructive sale transaction or other risk-reduction transaction; persons who have ceased to be U.S. citizens or to be taxed as resident aliens; or persons who acquire the Taxable Bonds in connection with their employment or other performance of services.

The following summary does not address all possible tax consequences. In particular, except as specifically described below, it does not discuss any estate, gift, generation skipping, transfer, state, local or foreign tax consequences. No ruling from the IRS has been sought with respect to the statements made and the conclusions reached in the following summary, and there is no assurance that the IRS will agree with those statements and conclusions. For all these reasons, each prospective investor should consult with its tax advisor about the federal income tax and other tax consequences of the acquisition, ownership and disposition of the Taxable Bonds.

As used herein, a "U.S. holder" is a beneficial owner of the Taxable Bonds who is a "United States person" and whose status as a U.S. holder is not overridden under the provisions of an applicable tax treaty. For these purposes, a "United States person" includes a citizen or resident of the United States; a corporation or partnership that is created or organized in or under the laws of the United States or any of the fifty states or the District of Columbia, unless, in the case of a partnership, otherwise provided by the Treasury Regulations; an estate the income of which is subject to federal income taxation regardless of its source; or a trust if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust, or a trust that has made a valid election to be treated as a United States person within the meaning of the Code.

Tax Status of the Taxable Bonds. The Taxable Bonds will be treated as indebtedness for U.S. federal income tax purposes. This summary assumes that the IRS will respect this classification.

A holder generally must include the stated interest on the Taxable Bonds in its gross income as ordinary interest income (1) when it is received, if the holder uses the cash method of accounting for U.S. federal income tax purposes; or (2) when it accrues, if the holder uses the accrual method of accounting for U.S. federal income tax purposes.

If a holder purchases a Taxable Bond for an amount that is greater than the principal amount of such Taxable Bonds, generally the excess is amortizable bond premium. Such holders should consult their tax advisors with respect to the determination and treatment of such premium and whether or not they should elect to amortize such premium under section 171 of the Code.

If a holder purchases the Taxable Bonds (other than at original issue) for an amount that is less than the principal amount of the Taxable Bonds, and such difference is not considered de minimis, then such discount will represent market discount that ultimately will constitute ordinary income (and not capital gain). Further, absent an election to accrue market discount currently, upon a sale or exchange of a Taxable Bond, a portion of any gain will be ordinary income to the extent it represents the amount of any such market discount that was accrued through the date of sale. In addition, absent an election to accrue market discount currently, the portion of any net direct interest expense incurred or continued to carry a market discount bond that does not exceed the accrued market discount for any taxable year will be deferred.

Sale, Exchange or Redemption of Taxable Bonds. A holder generally will recognize gain or loss upon the sale, exchange, redemption, retirement or other disposition of a Taxable Bond measured by the difference between (i) the amount of cash proceeds and the fair market value of any property received (except to the extent attributable to accrued interest income not previously included in income, which will generally be taxable as ordinary income, or attributable to accrued interest previously included in income, which amount may be received without generating further income), and (ii) the holder's adjusted tax basis in such Taxable Bond. A holder's adjusted tax basis in a Taxable Bond generally will equal its cost of the Taxable Bond plus the amount of any discount previously included in income, less any principal payments received by the holder and any amortized premium. Gain or loss on the disposition of Taxable Bonds will generally be a capital gain or loss (although any gain attributable to accrued market discount of the Taxable Bond not yet taken into income will be ordinary) and will be a long-term capital gain or loss if the Taxable Bonds have been held for more than one year at the time of disposition. The deductibility of capital losses is subject to limitations. Prospective investors should consult their tax advisors regarding the treatment of capital gains and losses.

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.

Information Reporting and Backup Withholding Tax. In general, information reporting requirements will apply to payments to certain noncorporate U.S. holders of principal and interest on a Taxable Bond and the proceeds of the sale of a Taxable Bond. A U.S. holder may be subject to backup withholding when it receives interest with respect to the Taxable Bonds or when it receives proceeds upon the sale, exchange, redemption, retirement or other disposition of the Taxable Bonds. The backup withholding rate currently is 28% and is subject to future adjustment. In general, an investor can avoid this backup withholding by properly executing under penalties of perjury an IRS Form W-9 or substantially similar form that provides (1) such investor's correct taxpayer identification number; and (2) a certification that such investor (a) is exempt from backup withholding because it is a corporation or comes within another enumerated exempt category, (b) has not been notified by the IRS that it is subject to backup withholding, or (c) has been notified by the IRS that it is no longer subject to backup withholding.

If an investor does not provide its correct taxpayer identification number on the IRS Form W-9 or substantially similar form, such investor may be subject to penalties imposed by the IRS. Backup withholding does not apply to payments made to certain holders, including corporations, tax-exempt organizations and certain foreign persons, provided their exemptions from backup withholding are properly established. Amounts withheld are generally not an additional tax and may be refunded or credited against an investor's federal income tax liability if such investor furnishes the required information to the IRS. The amount of any "reportable payments" for each calendar year and the amount of tax withheld, if any, with respect to those payments will be reported to the U.S. holders of Taxable Bonds and to the IRS.

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 his or her own 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.

Changes in Federal Tax Law

From time to time, there are legislative proposals in Congress that, if enacted, could cause interest on the Tax-Exempt Bonds to be subject, directly or indirectly, to federal income taxation, adversely affect the market value of the Tax-Exempt Bonds or otherwise prevent owners of the Tax-Exempt Bonds from realizing the full current benefit of the tax status of such interest. It cannot be predicted whether or in what form any such proposal might be enacted or whether if enacted, such legislation would apply to bonds issued prior to enactment. Purchasers of the Tax-Exempt Bonds should consult their tax advisors regarding the effect of any such legislation. The opinions expressed by Bond Counsel are based upon existing legislation and regulations as interpreted by relevant judicial and regulatory authorities as of the date of issuance and delivery of the Tax-Exempt Bonds, and Bond Counsel has expressed no opinion with respect to any proposed legislation or as to the tax treatment of interest the Tax-Exempt Bonds, or as to the consequences of owning or receiving interest on the Tax-Exempt Bonds, as of any future date. Bond Counsel has not agreed to notify the State or the owners of the Tax-Exempt Bonds as to any event subsequent to the issuance of the Tax-Exempt Bonds that might affect the tax treatment of interest on the Tax-Exempt Bonds, the market value of the Tax-Exempt Bonds or the consequences of owning or receiving interest on the Tax-Exempt Bonds.

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.

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 given 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," 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 Bonds were awarded pursuant to electronic competitive bidding on June 20, 2012 and June 21, 2012 and Commission action on June 21, 2012. The 2012A Bonds were awarded to J.P. Morgan Securities LLC (J.P. Morgan) at an aggregate discount of $1,652,425.88 from the initial public offering prices derived from the yields and price 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 2012A Bonds as set forth on the inside cover of this Official Statement. The 2012B Bonds were awarded to J.P. Morgan at an aggregate discount of $54,882.27 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 2012B Bonds as set forth on the inside cover of this Official Statement. The 2012C Bonds were awarded to J.P. Morgan at an aggregate discount of $560,098.47 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 2012C 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 2012A Bonds, the 2012B Bonds, or the 2012C Bonds should be obtained from J.P. Morgan and not from the State.

VERIFICATION OF MATHEMATICAL COMPUTATIONS – 2012C BONDS

The accuracy of, among other things, (i) the mathematical computations of the adequacy of the principal of and interest on the Refunding Escrow Obligations to be held in the Refunding Escrow Fund under the terms of the Escrow Deposit Agreement to pay when due the principal of and interest on the Refunded Bonds and (ii) certain mathematical computations supporting the conclusion that the Refunded Bonds and the 2012C Bonds are not "arbitrage bonds" under the Code will be verified by Samuel Klein and Company, Certified Public Accountants, a provider of mathematical verification and arbitrage rebate services. Such verification shall be based upon certain information supplied by the Commission. See "PURPOSE OF THE 2012C BONDS - PLAN OF REFUNDING," and "LEGAL AND TAX STATUS - Tax Consequences of Owning the Bonds" herein.

LEGAL MATTERS

Legal matters incident to the validity of the Bonds are subject to the approving opinion of King & Spalding 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 is set forth in "APPENDIX E" and for the Taxable Bonds is set forth in "Appendix F" herein. A signed copy of such opinion for the Tax-Exempt Bonds and for the Taxable Bonds, dated and speaking only as of the date of original delivery of the Tax-Exempt Bonds and the Taxable Bonds, as the case may be, will be available at the time of original delivery of the Tax-Exempt Bonds and the Taxable 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 - STATE OF GEORGIA - Debt and Revenue Information - Significant Contingent Liabilities" and "APPENDIX B - STATE OF GEORGIA - Basic Financial Statements for Fiscal Year Ended June 30, 2011 - 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, 2011, 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, 2012 ("FY 2012") (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 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. The State has never failed to comply in all 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.

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 Resolutions 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 Resolutions. Copies of the Resolutions are 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 agreements of the Commission with the holders of the Bonds are fully set forth in the Bonds and the Resolutions, 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/ *Russell W. Hinton*
Russell W. Hinton
Secretary and Treasurer
Georgia State Financing and Investment Commission

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APPENDIX A

STATE OF GEORGIA

Debt and Revenue Information

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STATE OF GEORGIA
Debt and Revenue Information

General

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.

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 appropriations 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 public debt of two types for public purposes: (1) general obligation debt and (2) 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, 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 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, 2011" herein.

Reserves

With respect to the revenue shortfall reserve and the mid-year adjustment reserve, the Official Code of Georgia Annotated Section 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.
h) The Revenue Shortfall Reserve shall not exceed 15 percent of the previous fiscal year's net revenue for any given fiscal year.

Authorized Indebtedness

The following table sets forth by purpose the aggregate 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, 2013. 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 "State Obligations Issued" and "Unissued Authorized Indebtedness."

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Purpose	General Obligation Debt Authorized	Guaranteed Revenue Debt Authorized	Total State Obligations Issued (Including the Bonds)	Unissued Authorized Indebtedness
Transportation	$ 4,358,935,000	$755,245,000	$ 4,975,775,000	$138,405,000
School Construction	5,502,470,000		5,228,120,000	274,350,000
University Facilities	4,709,528,000		4,698,228,000	11,300,000
World Congress Center	647,165,000		632,165,000	15,000,000
Human Resources Facilities	352,150,000		344,150,000	8,000,000
Port Facilities	778,815,000		688,765,000	90,050,000
Correctional Facilities	921,235,000		912,735,000	8,500,000
Public Safety Facilities	92,430,000		91,070,000	1,360,000
Bureau of Investigation	93,075,000		93,075,000	
Department of Revenue	55,375,000		55,375,000	
Department of Labor	53,810,000		53,810,000	
Department of Natural Resources	640,950,000		624,085,000	16,865,000
Technical College System (1)	1,469,617,000		1,381,617,000	88,000,000
Environmental Facilities Authority	695,850,000	97,470,000	743,220,000	50,100,000
Dept. of Administrative Services	59,605,000		59,605,000	
Department of Agriculture	78,630,000		78,630,000	
Building Authority	540,220,000		522,990,000	17,230,000
Stone Mountain Memorial Assn.	48,400,000		48,400,000	
Department of Veterans Services	15,530,000		15,530,000	
Jekyll Island State Park Authority	78,190,000		78,190,000	
Secretary of State	55,050,000		55,050,000	
Department of Defense	33,470,000		33,470,000	
Department of Community Affairs	59,050,000		58,200,000	850,000
Economic Development	165,065,000		165,065,000	
Emergency Mgmt. Agency	200,000		200,000	
Soil and Water Conservation Comm.	17,840,000		11,840,000	6,000,000
Department of Juvenile Justice	296,140,000		294,525,000	1,615,000
Golf Hall of Fame	6,000,000		6,000,000	
Forestry Commission	44,195,000		43,075,000	1,120,000
Agricultural Exposition Authority	23,445,000		23,445,000	
Other	89,560,000		88,780,000	780,000
Subtotal	21,981,995,000	852,715,000	22,105,185,000	729,525,000
Net Effect of Refunding Bonds				
General Obligation Bonds	74,660,000		65,395,000	
Guaranteed Revenue Bonds		-20,310,000	-20,310,000	
Subtotal	74,660,000	-20,310,000	45,085,000	
Grand Total	$22,071,655,000	$832,405,000	$22,150,270,000	$729,525,000

(1) Formerly the Department of Technical and Adult Education
Source: Georgia State Financing and Investment Commission

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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 $729,525,000 of unissued authorized general obligation debt remaining to be issued. There is no unissued authorized guaranteed revenue debt to be issued.

	General Obligation	Guaranteed Revenue	Total Outstanding
Total bonds outstanding upon the payment of bonds due on June 1, 2012	$8,584,945,000	$403,450,000	$8,988,395,000
Less scheduled retirements July 1, 2012	-196,590,000	0	-196,590,000
Total bonds outstanding as of the close of business July 1, 2012	8,388,355,000	403,450,000	8,791,805,000
Plus the 2012A Bonds and the 2012B Bonds	599,955,000	0	599,955,000
Net effect of 2012C Refunding Bonds	-9,265,000	0	-9,265,000
Projected total bonds outstanding upon issuance of the Bonds	$8,979,045,000	$403,450,000	$9,382,495,000

Source: Georgia State Financing and Investment Commission

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, 2011, included herein as Appendix B.

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 aggregate scheduled payments by fiscal year for all issued and outstanding debt, excluding the Bonds, subsequent to the payment of all scheduled debt service payments due in FY 2012.

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Outstanding Debt Service Schedule

Fiscal Year Ending June 30	General Obligation Bonds		Guaranteed Revenue Bonds		Total Debt Service		
	Principal	Interest	Principal	Interest	Total Principal	Total Interest	Total Debt Service
2013	$733,845,000	$393,349,931	$29,035,000	$19,729,658	$762,880,000	$413,079,588	$1,175,959,589
2014	682,480,000	358,098,062	25,780,000	18,376,370	708,260,000	376,474,432	1,084,734,432
2015	674,350,000	324,702,316	21,525,000	17,283,430	695,875,000	341,985,746	1,037,860,746
2016	609,585,000	291,503,179	38,045,000	15,956,135	647,630,000	307,459,314	955,089,314
2017	581,185,000	262,873,562	39,965,000	14,033,755	621,150,000	276,907,317	898,057,317
2018	566,830,000	234,446,286	41,980,000	12,014,125	608,810,000	246,460,411	855,270,411
2019	551,935,000	207,971,399	44,105,000	9,892,500	596,040,000	217,863,899	813,903,899
2020	531,770,000	182,727,923	46,335,000	7,663,500	578,105,000	190,391,423	768,496,423
2021	516,555,000	158,102,578	48,675,000	5,321,750	565,230,000	163,424,328	728,654,328
2022	464,490,000	136,075,118	21,545,000	2,861,625	486,035,000	138,936,743	624,971,743
2023	440,520,000	115,639,518	22,650,000	1,756,750	463,170,000	117,396,268	580,566,268
2024	411,210,000	95,960,389	23,810,000	595,250	435,020,000	96,555,639	531,575,639
2025	370,250,000	77,181,469	0	0	370,250,000	77,181,469	447,431,469
2026	346,220,000	59,231,073	0	0	346,220,000	59,231,073	405,451,073
2027	351,760,000	43,583,932	0	0	351,760,000	43,583,932	395,343,932
2028	264,900,000	29,804,355	0	0	264,900,000	29,804,355	294,704,355
2029	223,195,000	18,852,117	0	0	223,195,000	18,852,117	242,047,117
2030	131,125,000	9,003,714	0	0	131,125,000	9,003,714	140,128,714
2031	82,310,000	3,929,426	0	0	82,310,000	3,929,426	86,239,426
2032	50,430,000	1,008,600	0	0	50,430,000	1,008,600	51,438,600
Total	$8,584,945,000	$3,004,044,945	$403,450,000	$125,484,848	$8,988,395,000	$3,129,529,793	$12,117,924,793

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 outstanding general obligation bonds and guaranteed revenue bonds of the State of Georgia upon the payment of bonds due through June 1, 2012.

Principal Amount Due	Amount	% of Total
In 5 Years	$3,435,795,000	38.2%
In 10 Years	$6,248,470,000	69.6%

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. During the fiscal year ended June 30, 2011 and FY 2012 year-to-date, 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.

Market Transactions to Retire Debt, Fiscal Years 2007 – 2012

Fiscal Year Ended June 30	Par Value	Purchase Price (1)	Purchase Price as % of Par Value
2007	$ 38,805,000	$25,331,415	65.28%
2008	126,515,000	94,670,717	74.83
2009	87,855,000	90,761,688	103.31
2010	39,335,000	35,033,668	89.06
2011	0	0	--
2012 (2)	0	0	--

(1) Excluding Accrued Interest
(2) Through June 1, 2012
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 Treasury Receipts (revenue receipts less refunds) set forth in the table below. The annual percentage increase or decrease in such Treasury Receipts is set forth in the third column of the table below. For a discussion of Treasury Receipts during FY 2011, see "Fiscal Performance," below.

Fiscal Year Ended June 30,	Treasury Receipts	% Change From Prior Year
2007	$19,895,976,560	8.5%
2008	19,799,131,881	(0.5)
2009	17,832,362,806	(9.9)
2010	16,251,240,187	(8.9)
2011	17,546,374,291	8.0

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 2011	$1,754,637,429
• Highest current outstanding debt service in any year (highest fiscal year to end June 30, 2013 ("FY 2013")	$1,175,959,589
• Total additional debt service appropriations for all authorized but unissued bonds, including the Bonds	$134,268,714
• Highest total annual commitments in any fiscal year, including debt service appropriations for all authorized but unissued bonds	$1,310,228,303
• As a percent of FY 2011 State Treasury Receipts	7.47%
• 10% of Projected State Treasury Receipts for FY 2012	$1,832,121,943
• As a percent of FY 2012 Projected State Treasury Receipts	7.15%
• 10% of Projected State Treasury Receipts for FY 2013	$1,921,312,493
• As a percent of FY 2013 Projected State Treasury Receipts	6.82%

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
2006	$335,529,939,429	$ 873,775,883,930	38.4%
2007	368,209,894,651	962,388,642,580	38.3
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

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."

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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:

Total State Debt Outstanding subsequent to the payment of bonds due on July 1, 2012 (See "Outstanding Debt" herein) plus the 2012A Bonds and 2012B Bonds	$9,391,760,000
2011 Population Estimate (a)	9,815,210
2011 Total Personal Income Estimate (b)	$354,371,740,000
Debt per Capita	$957
Debt to Personal Income	2.65%
Debt to Estimated Actual Value	1.0%
Debt to Assessed Valuation	2.6%

(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

Selected Financial Information

GEORGIA NET REVENUES AND REVENUE SHORTFALL RESERVE ($ in millions)

		Revenue Shortfall Reserve (a)		
Fiscal Year End June 30	Georgia Net Revenues	Total Reserves	1% Education (K-12) (b)	Net
2007	$18,840	$1,733	$188	$1,545
2008 (c)	18,728	1,212	187	1,025
2009 (d)	16,767	530	168	362
2010	15,216	268	152	116
2011	16,559	494	166	328

(a) See page A-2, "Reserves," for additional information regarding the Revenue Shortfall Reserve. 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 year ended June 30, 2009 ("FY 2009"), FY 2010, and FY 2011 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. The fiscal year ended June 30, 2006 ("FY 2006"), the fiscal year ended June 30, 2007 ("FY 2007"), the fiscal year ended June 30, 2008 ("FY 2008"), FY 2009, and FY 2010 Education Reserves were appropriated in FY 2007, FY 2008, FY 2009, FY 2010, and FY 2011, respectively, for this purpose (see Appendix A, "GEORGIA REVENUES" herein).
(c) At June 30, 2008, the Revenue Shortfall Reserve was reduced $536,218,804 to provide for the shortfall of actual FY 2008 revenues as compared to FY 2008 appropriations. On December 3, 2008, the State Auditor determined agencies had lapsed state general funds of $203,406,862 for a net reduction of $332,811,942.
(d) 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 2010 appropriation.
Source: State Accounting Office
Note: Amounts may not add precisely due to rounding.

RECONCILIATION OF REVENUE SHORTFALL RESERVE (RSR), FY 2011 AND FY 2012 USES

Audited RSR as of June 30, 2010	$268,179,869
1% Mid-year Adjustment for K-12 Appropriated in FY 2011	(152,157,908)
Adjusted FY 2010 Revenue Shortfall Reserve	116,021,961
Excess of Total Funds Available Over FY 2011 Appropriation	329,273,091
Subtotal	445,295,052
Audited Agency Lapse of Surplus Funds	48,679,138
Reserved for 1% Mid-year Adjustment for K-12 Education for Appropriation in Amended FY 2012 Budget	(165,586,475)
RSR Balance as of June 30, 2011	$328,387,715

Source: State Accounting Office

Fiscal Policy

Under Georgia law, the Governor is the State's Chief Executive and also the *ex officio* Director of the Budget. He is assisted in financial management by the Chief Financial Officer. 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.

Fiscal Performance

FY 2011 Results. Georgia General Fund revenues grew in FY 2011 following three consecutive years of declines. The recession which began in December 2007 resulted in a deep contraction in the national and Georgia economies, which in turn led to steep year over year revenue declines in many State tax sources, including major revenue sources such as individual income tax, corporate income tax, and sales tax. The Amended FY 2011 budget was built on projected growth of 4.2% in total tax revenues and 52.8% in interest, fees and sales compared to FY 2010 collections; both estimates included new revenue sources which had been enacted in the 2010 session of the General Assembly. Overall budget growth in General Fund revenues was 6.6%, however, actual tax revenues grew more quickly than budgeted. The actual FY 2011 tax revenue growth was 7.0% versus the estimate of 4.2% growth. Interest, fees, and sales revenue growth fell short of the budget estimate with realized growth of 44.0%. Overall, General Fund growth equaled 8.8% compared to budgeted growth of 6.6%.

Individual income tax revenues grew by 9.2% in FY 2011 over FY 2010 revenues. Several components of individual income tax contributed to this overall growth rate. Withholding revenues, which largely reflect wages paid to Georgia workers, grew by 4.0% for the year. Estimated payments, including non-resident composite income payments, grew by 15.5%. FY 2011 individual income tax refund payments declined by 8.4% compared to FY 2010, partly due to fewer refund payments being carried over from the preceding fiscal year as had happened in FY 2010. Payments with returns grew by 1.1%.

Corporate income tax revenues fell by 2.1%. Corporate estimated payments grew by 13.5% compared to FY 2010, but corporate income tax refund payments were up by 22.6% compared to FY 2010.

Sales tax collections grew by 4.4% compared to FY 2010 revenues.

Total FY 2011 revenues available in excess of appropriations totaled $329 million; these excess revenues were added to the Revenue Shortfall Reserve ("RSR"). In addition, Agency lapse totaled nearly $49 million. These brought the RSR balance up to $494 million as of June 30, 2011. By statute, 1% of the prior year's revenues (approximately $165.6 million) is available from the RSR for the mid-year K-12 education appropriation adjustment in the Amended FY 2012 budget. The balance remaining in the RSR after the mid-year appropriation in the Amended FY 2012 budget is

$328.4 million. No assurance currently can be provided with respect to the status of the RSR at the end of FY 2012 as that is dependent upon the actual revenues of the State in FY 2012 and agency lapses of unspent and unencumbered appropriations at the end of FY 2012.

Amended FY 2012 Budget. The amended FY 2012 budget requires growth of 4.3% in total General Fund revenues over actual FY 2011 General Fund collections. Tax revenue growth of 4.4% is required over FY 2011 tax collections. Fiscal year to date revenue growth is above the rate required to meet the existing budget. For the first eleven months of FY 2012, tax revenues as reported by the Department of Revenue have grown by 5.1% relative to the same period of FY 2011. For this same period, General Fund revenue growth as reported by the Treasurer's office equals 4.8% for FY 2012 compared to FY 2011.

FY 2012 Year to Date Through May 2012. Tax revenues have grown 5.1% through the first eleven months of FY 2012 as compared to the first eleven months of FY 2011. Individual income tax revenues are up 7.1% with support coming from several components. Withholding revenues and payments with returns are up and refunds paid are down. Withholding revenues have grown 4.0% year to date in FY 2012 as compared to the same time period in FY 2011. Sales tax revenue growth equals 5.2% for the fiscal year to date. Corporate income tax revenues have declined substantially for the fiscal year to date. Total tax payments by corporations have declined by 1.6%, however, corporate refunds paid have increased by $110 million, or 55.2%, resulting in a net -22.2% for the corporate income tax component through the first eleven months of FY 2012 as compared to the first eleven months of FY 2011. Total tax revenue growth to date equals 5.1% compared to the FY 2012 budgeted growth of 4.4%.

FY 2012 revenue performance currently is exceeding the growth rates needed to meet the revenue estimate for the fiscal year. Thus the State does not anticipate taking any action during the current fiscal year to alter current budget allotments or restrain spending. If revenue collections in June 2012 are weaker than expected, the State may be required to exercise budgetary controls for budget balancing purposes.

Current Economic Indicators. The economic recovery in the U.S. has been in place since mid-2009 and a broad spectrum of indicators reflect the moderate pace of economic expansion. Real GDP grew 1.9% in the first quarter of calendar 2012 compared to 3.0% in the fourth quarter of 2011.

Employment continues to expand in the U.S. although the pace of expansion has slowed in recent months. Total employment growth peaked at just over 250,000 jobs in February 2012 on a three month moving average basis, but has slipped to just over 95,000 jobs as of May 2012. Government employment contraction continues to be a drag on growth. The U.S. unemployment rate has fallen from 9.0% in May 2011 to 8.2% in May 2012, although the rate increased by a tenth of a percent from the 8.1% rate in April 2012.

The Institute of Supply Management Indices for Manufacturing and for Services have declined from recent peaks, but are well above the 50 level indicating that both sectors are still expanding. U.S. personal income in April 2012 grew by 2.8% over April 2011 and personal consumption expenditures grew by 4.0% compared to a year ago.

Employment in Georgia is growing at a modest pace. As of April 2012, total non-farm employment increased by 24,700 jobs or 0.6% over April 2011. Over that same period, Georgia's unemployment rate fell from 9.8% to 8.9%. As in the U.S., government employment contraction has been a drag on growth. Additionally, declining construction employment has continued to be a significant drag on overall employment performance. In contrast, the professional and business services sector, education and health sector, manufacturing sector, and the trade transportation and utilities sector all are experiencing positive year over year employment growth. The Purchasing Manager's Index for manufacturing in Georgia declined slightly in April, but remains a robust 61.9, above the index levels for the U.S. and Southeast.

Personal income growth in Georgia has been moderate in recent quarters. In the fourth quarter of calendar 2011, total personal income grew by 0.62% over the prior quarter. This compares to 0.79% for the U.S. Georgia personal income from wages and salaries grew more strongly at 1.04% over the prior quarter.

The housing sector in Georgia is still under stress. Existing home sales have been increasing, but construction activity has shown little improvement. One area of small improvement has been in multi-family constructions permits which have increased off their lows. Permits issued for single family homes have not increased. Home prices as measured by the S&P Case Shiller repeat purchase index are still falling on a year over year basis for both the Atlanta metro area and for the composite index for 20 metro areas across the U.S. For the Atlanta metro area, home prices as of March 2012 are down 17.7% compared to prices during March 2011. The composite index for 20 metro areas across the county is down 2.6% for the same period. Foreclosure rates and mortgage delinquency rates in Georgia remain high and above the U.S. averages.

Changes to Georgia's Tax Code. During its 2012 session, the General Assembly passed H.B. 386 which was signed into law by the Governor on April 19, 2012 (Act 607). This legislation implements a series of changes to Georgia's tax code. These changes include key portions of the Governor's initiative to improve Georgia's competitive position in creating and retaining jobs such as: phasing out the sales tax on energy used in manufacturing activities; broaden sales tax exemptions for agricultural producers, exempt 1% of the total 4% sales and use tax rate for commercial sales and use of jet fuel; and, providing discretionary authority to exempt sales tax on energy and construction materials for projects of regional significance. Other provisions include: implementing a title fee on automobile transactions and eliminating the existing sales tax on auto sales and phasing out the property tax on autos: increasing the personal exemption for married filers to reduce the "marriage penalty" in the current tax code; capping the retirement income exclusion at the January 1, 2012 level of $65,000; eliminating the sales tax exemption for film production activities; implementing affiliate nexus language in sales tax; instituting sales tax holidays in the next two fiscal years; and capping credits allowed for conservation easements. The combined revenue impact of these tax code changes versus the tax code prior to the changes was estimated to equal -$48.8 million in FY 2013, -$36.7 million in FY 2014, and $22.7 million in FY 2015.

FY 2013 Budget. The FY 2013 budget anticipates General Fund revenue growth of 5.2% over the amended FY 2012 General Fund estimate and tax revenue growth of 5.3% over the amended FY 2012 tax revenue estimate.

The economic scenario which underlies the amended FY 2012 and FY 2013 budgets assumes that the national and state economies continue to recover with growth gradually accelerating. Higher employment and income growth are expected to boost income tax and sales tax collections. In addition, it is expected that individual income tax refunds will begin to slowly increase again. As economic conditions normalize in calendar 2012 and 2013, households are expected to increase savings' rates further. This will constrain growth in sales tax revenue. Corporate profits are expected to continue to grow boosting corporate income tax collections. Moreover, the high level of corporate refunds paid in FY 2012 is expected to moderate providing a boost to revenue growth.

This scenario expects that the U.S. will avoid recession in the near-term and that growth will improve and accelerate in the medium term. Given the current risks facing global economies including that of the U.S., economic conditions in Georgia could be materially worse than the current economic scenario. Such conditions would mean that the anticipated growth in state revenues would not be realized and that additional actions to reduce spending would be required.

The State will begin preparing preliminary revenue projections in early FY 2013. These preliminary projections will factor in preliminary FY 2012 collections, updated economic forecasts for the U.S. and Georgia, and estimated impacts from tax legislation passed in recent legislative sessions. These preliminary projections will be used to develop budget instructions for state agencies to prepare revised budget requests for the Amended FY 2013 budget and initial budget requests for the FY 2014 budget and to guide interim decisions regarding expenditure levels.

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 Treasurer ("Treasury") funds warrants against the allotments as warrants are presented to it by the various State agencies and 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, which was exercised during FY 2009 and FY 2010, to rescind undrawn allotments prior to such allotments being funded by Treasury, if necessary to manage state expenditures to available revenues or to maintain liquidity. 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 agencies to reserve appropriations or, through coordination with State agencies and other budget units, can delay approval of allotments and rescind prior allotments. In addition, the Governor can reduce the revenue estimate for the fiscal year and recommend that the legislature amend the FY 2013 budget to reflect lowered revenue estimates. The next regular session of the legislature is scheduled to begin in January 2013.

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 withholding appropriation allotments and by increasing the processing time for tax refunds. 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.

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GEORGIA REVENUES

ACTUAL FY 2007 – FY 2011

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

GENERAL FUNDS	**FY 2007**	**FY 2008**	**FY 2009**	**FY 2010**	**FY2011**
Net Taxes: Department of Revenue					
Income Tax - Individual	$8,820,794,305	$8,829,480,885	$7,814,552,113	$7,016,412,171	$7,658,782,326
Income Tax - Corporate	1,019,117,939	941,966,726	694,718,310	684,700,740	670,409,796
Sales and Use Tax - General	5,915,521,040	5,796,653,340	5,306,490,689	4,864,691,463	5,080,776,730
Motor Fuel	939,034,563	994,790,336	884,091,188	854,359,788	932,702,991
Tobacco Taxes	243,276,111	239,691,526	230,271,910	227,180,405	228,858,070
Alcoholic Beverages Tax	181,560,133	167,397,928	169,668,539	169,019,330	161,803,418
Estate Tax	1,426,030	12,325	82,990	0	0
Property Tax	77,842,189	80,257,696	83,106,994	86,228,331	76,704,325
Net Taxes: Other Organizations					
Insurance Premium Tax	341,745,785	348,218,618	314,338,992	274,367,273	360,669,593
Motor Vehicle License Tax	289,931,262	296,648,374	283,405,915	282,515,540	298,868,209
Total Net Taxes	17,830,249,357	17,695,117,754	15,780,727,640	14,459,475,041	15,469,575,458
Interest, Fees and Sales - Department of Revenue	151,323,824	150,848,634	158,916,288	132,282,145	224,083,020
Office of State Treasurer:					
Interest on Deposits	157,932,214	146,815,058	89,157,960	8,157,741	-21,918
Other Fees and Sales	613,734	428,752	602,761	338,417	
Behavioral Health				5,856,093	5,634,937
Driver Services	63,494,126	64,907,591	64,176,624	40,600,978	57,487,315
Natural Resources	48,830,921	51,865,765	47,001,999	49,221,174	44,969,509
Secretary of State	65,830,011	66,970,993	66,794,531	68,244,049	81,479,049
Labor Department	32,616,320	32,318,507	30,332,589	28,354,875	29,077,607
Human Resources	28,534,965	16,587,606	33,609,407	8,955,806	7,942,374
Banking and Finance	22,125,811	21,485,712	20,728,179	21,428,925	20,158,138
Corrections	14,526,604	16,445,194	15,689,864	13,435,899	15,013,036
Workers' Compensation	16,431,404	17,347,383	18,904,664	18,930,132	21,078,738
Public Service Commission	2,066,311	1,051,726	3,031,268	1,499,311	1,123,038
Nursing Home Provider Fees	111,767,509	133,973,809	122,623,032	126,449,238	128,771,295
Care Mgmt. Organization Fees	127,600,688	140,307,653	143,957,013	42,232,458	297,276
Hospital Provider Payments					215,079,822
Driver Services Super Speeder Fine				2,046,905	14,161,809
Indigent Defense Fees	43,304,260	45,373,866	43,987,641	44,598,499	42,426,463
Peace Officers' and Prosecutors' Training Funds	27,360,053	27,289,574	25,604,603	26,555,179	25,547,136
All Other Departments	95,833,527	98,677,046	100,815,741	117,127,921	154,763,426
Total Interest, Fees & Sales	1,010,192,282	1,032,694,869	985,934,164	756,315,745	1,089,072,069
Total General Funds (Georgia Net Revenues)	18,840,441,639	18,727,812,623	16,766,661,804	15,215,790,786	16,558,647,527
Lottery Funds	892,023,459	901,286,984	884,642,058	886,375,726	847,049,832
Tobacco Settlement Funds	156,766,907	164,459,961	177,370,078	146,673,654	138,450,703
Guaranteed Revenue Debt Common Reserve Fund Interest Earnings	3,736,864	3,603,320	1,719,873	333,632	265,380
Brain and Spinal Injury Trust Fund	3,007,691	1,968,993	1,968,993	2,066,389	1,960,848
Total State Treasury Receipts	**19,895,976,560**	**19,799,131,881**	**17,832,362,806**	**16,251,240,187**	**17,546,374,291**
Other	2,412	2,437	2,808	4,236	1,803
Subtotal	19,895,978,972	19,799,134,318	17,832,365,614	16,251,244,423	17,546,376,094
Payments from State Organizations	0	0	25,911,999	98,959,391	93,273,955
GEFA Loan Sale	0	0	0	0	288,000,000
Mid-Year Adjustment--Education Reserve	173,387,596	188,404,416	187,278,126	167,666,618	152,157,908
Appropriation of Revenue Shortfall Reserve (1)	0	536,218,804	548,658,969	258,597,684	0
TOTAL FUNDS AVAILABLE FOR APPROPRIATION	$20,069,366,568	$20,523,757,538	$18,594,214,708	$16,776,468,116	$18,079,807,957

(1) FY 2008 was due to the shortfall of Receipts to Appropriation and was not included in the original revenue estimate; 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 2012 BUDGET and ADOPTED FY 2013 BUDGET

The following table sets forth projected budget-based State revenues available for appropriation for Amended FY 2012 and Adopted FY 2013.

GENERAL FUNDS	**Amended FY2012**	**Adopted FY2013**
Net Taxes: Department of Revenue		
Income Tax - Individual	$ 8,118,895,000	$ 8,604,798,000
Income Tax - Corporate	626,628,554	735,023,441
Sales and Use Tax - General	5,297,872,000	5,560,652,700
Motor Fuel	966,692,000	967,307,000
Tobacco Taxes	233,435,200	232,268,000
Alcoholic Beverages Tax	160,499,735	160,425,500
Estate Tax	0	0
Property Tax	71,335,000	51,482,500
Net Taxes: Other Organizations		
Insurance Premium Tax	368,489,700	378,919,500
Motor Vehicle License Tax	305,328,600	312,421,900
Total Net Taxes	16,149,175,789	17,003,298,541
Interest, Fees and Sales - Department of Revenue	233,046,000	245,006,900
Office of State Treasurer:		
Interest on Deposits (Net of Bank Charges/Other)	(2,522,158)	(2,522,158)
Other Fees and Sales		
Behavioral Health	5,142,073	5,030,561
Driver Services	58,000,000	58,000,000
Natural Resources	47,673,207	47,673,207
Secretary of State	77,389,000	78,389,000
Labor Department	29,100,000	29,300,000
Public Health	12,325,000	12,465,000
Human Services	7,900,000	7,900,000
Banking and Finance	19,182,794	18,907,800
Corrections	15,387,296	15,387,296
Workers' Compensation	22,484,702	21,909,275
Public Service Commission	1,500,000	1,200,000
Nursing Home Provider Fees	143,556,543	157,444,961
Hospital Provider Payments	225,568,262	235,302,027
Driver Services Super Speeder Fine	15,937,214	15,937,214
Indigent Defense Fees	42,426,463	42,426,463
Peace Officers' and Prosecutors' Training Funds	26,000,000	26,000,000
All Other Departments	133,132,343	141,591,715
Total Interest, Fees & Sales	1,113,228,739	1,157,349,261
Total General Funds (Georgia Net Revenues)	17,262,404,528	18,160,647,802
Lottery Funds	918,008,929	904,439,791
Tobacco Settlement Funds	138,472,267	145,640,765
Guaranteed Revenue Debt Common Reserve Fund Interest Earnings	0	0
Brain and Spinal Injury Trust Fund	2,333,708	2,396,580
Total State Treasury Receipts	18,321,219,432	19,213,124,938
Other	0	0
Subtotal	18,321,219,432	19,213,124,938
Payments from State Organizations	16,993,115	29,179,500
National Mortgage Settlement	0	99,365,105
Mid-Year Adjustment—Education Reserve	165,586,475	0
TOTAL FUNDS AVAILABLE FOR APPROPRIATION	$18,503,799,022	$19,341,669,543

Source: State of Georgia Office of Planning and Budget

FIVE-YEAR HISTORY

The following table sets forth by category the budget-based revenues available for appropriation—FY 2007 through FY 2011.

	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Alcoholic Beverages Tax	$181,560,133	$167,397,928	$169,668,539	$169,019,330	$161,803,418
Estate Tax	1,426,030	12,325	82,990	0	0
Income Tax – Corporate	1,019,117,939	941,966,726	694,718,310	684,700,740	670,409,796
Income Tax – Individual	8,820,794,306	8,829,480,885	7,814,552,113	7,016,412,171	7,658,782,326
Insurance Premium Tax and Fees	341,745,785	348,218,618	314,338,992	274,367,273	360,669,593
Excise and Motor Carrier Mileage Tax	469,929,463	456,634,594	461,265,508	469,117,616	452,197,063
Prepaid Motor Fuel Sales Tax	469,105,100	538,155,742	422,825,680	385,242,172	480,505,928
Motor Vehicle License Tax	289,931,292	296,648,374	283,405,915	282,515,540	298,868,209
Property Tax – General and Intangible	77,842,189	80,257,696	83,106,994	86,228,331	76,704,325
Sales and Use Tax - General	5,915,521,040	5,796,653,340	5,306,490,689	4,864,691,463	5,080,776,730
Tobacco Products Tax	243,276,111	239,691,526	230,271,910	227,180,405	228,858,070
Total Taxes	17,830,249,357	17,695,117,754	15,780,727,640	14,459,475,041	15,469,575,458
Total Interest, Regulatory Fees, and Sales	1,010,192,281	1,032,694,869	985,934,164	756,315,745	1,089,072,069
Total Other Revenues Retained (1)	1,055,537,333	1,071,321,695	1,065,703,810	1,035,453,637	987,728,567
Total Revenues	$19,895,978,972	$19,799,134,318	$17,832,365,614	$16,251,244,423	$17,546,376,094

(1) Other Revenues Retained includes Lottery Funds, Tobacco Settlement Funds, Guaranteed Revenue Debt Common Reserve Fund Interest Earnings, Brain and Spinal Injury Trust Fund, and Other amounts.

Note: Amounts may not add precisely due to rounding.

Source: Fiscal Years 2006 - 2011 *Budgetary Compliance Report,* State Accounting Office

Changes in Georgia Revenues – FY 2010 to FY 2011

	FY 2010	FY 2011	$ Change	% Change
Alcoholic Beverages Tax	$169,019,330	$161,803,418	$(7,215,912)	(4.3)%
Estate Tax	0	0	0	-
Income Tax – Corporate	684,700,740	670,409,740	(14,290,944)	(2.1)
Income Tax – Individual	7,016,412,171	7,658,782,326	642,370,155	9.2
Insurance Premium Tax and Fees	274,367,273	360,669,593	86,302,320	31.4
Excise and Motor Carrier Mileage Tax	469,117,616	452,197,063	(16,920,553)	(3.6)
Prepaid Motor Fuel Sales Tax	385,242,172	480,505,928	95,263,756	24.7
Motor Vehicle License Tax	282,515,540	298,868,209	16,352,669	5.8
Property Tax – General and Intangible	86,228,331	76,704,325	(9,524,006)	(11.0)
Sales and Use Tax - General	4,864,691,463	5,080,776,730	216,085,267	4.4
Tobacco Products Tax	227,180,405	228,858,070	1,677,665	0.7
Total Taxes	14,459,475,041	15,469,575,458	1,010,100,417	7.0
Total Interest, Regulatory Fees, and Sales	756,315,745	1,089,072,069	332,756,324	44.0
Total Other Revenues Retained	1,035,453,637	987,728,567	(47,725,070)	(4.6)
Total Revenues	$16,251,244,423	$17,546,376,094	$1,295,131,671	8.0%

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 2007 to FY 2011.

	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Education	$10,504,665,222	$11,360,222,780	$10,605,610,728	$9,635,314,679	$10,372,130,365
Public Health and Welfare (1):	4,055,137,058	4,021,270,923	3,282,068,892	3,331,751,012	3,506,185,744
Transportation	730,683,684.00	837,593,635.00	868,068,713.00	696,481,476.00	682,500,519.00
Judicial, Penal and Corrections (2)	1,529,773,708	1,647,768,571	1,515,701,609	1,416,224,093	1,440,130,535
Natural Resources	189,370,408	224,390,926	180,749,634	159,829,852	146,441,378
General Obligation Debt Sinking Fund	867,362,477	969,780,103	935,990,354	1,040,947,805	1,182,283,016
General Government (2)	1,289,620,495	1,438,541,494	1,183,624,303	726,324,308	721,991,027
Total Allotments	$19,166,613,052	$20,499,568,432	$18,571,814,233	$17,006,873,225	$18,051,662,584

(1) General Services, Benefits and Operations, Medical Facilities, Construction and State Institutions

(2) Public Defender Standards Council moved from "Judicial, Penal and Corrections" to "General Government" effective FY 2008.

Source: 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 2011 and FY 2012.

GENERAL FUND	FY 2011	FY 2012	Change	% Chg
Tax Revenues:				
Income Tax - Individual	$6,876,376	$7,361,861	$485,485	7.1%
Sales and Use Tax - General:				
Sales and Use Tax - Gross	8,809,250	9,244,519	435,268	4.9
Local Sales Tax Distribution	(4,041,214)	(4,221,364)	(180,149)	-4.5
Sales Tax Refunds/Adjustments	(108,706)	(121,753)	(13,047)	-12.0
Net Sales and Use Tax - General	4,659,330	4,901,402	242,072	5.2
Motor Fuel Taxes:				
Prepaid Motor Fuel Sales Tax	428,298	523,452	95,155	22.2
Motor Fuel Excise Tax	404,151	393,447	(10,704)	-2.6
Total Motor Fuel Taxes	832,448	916,899	84,451	10.1
Income Tax - Corporate	560,075	435,867	(124,208)	-22.2
Tobacco Taxes	197,616	198,709	1,093	0.6
Alcohol Beverages Tax	147,376	157,500	10,125	6.9
Estate Tax	0	28	28	0.0
Property Tax	75,014	65,868	(9,145)	-12.2
Motor Vehicle – Tag, Title & Fees	269,852	279,184	9,332	3.5
Total Tax Revenues	13,618,088	14,317,319	699,232	5.1
Other Fees and Taxes (b)	188,834	192,557	3,723	2.0
Total Taxes and Other Fees	$13,806,922	$14,509,877	$702,955	5.1%

(a) An adjustment is made each month to reclassify Auto Sales Tax collected from Motor Vehicle to Other Fees and Taxes until the Sales Tax is subsequently deposited and reclassified as General Sales and Use Tax in the next month.

(b) Other Fees and Taxes include taxes and fees that have been deposited in the bank, but the returns have not been processed. The undistributed amounts are then reclassified (as returns are processed) to the proper respective accounts. 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 2007 through FY 2011 and FY 2012 through May 2012.[a]

Month	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
July	$3,027	$3,486	$2,453	$1,779	$1,661	$2,050
August	2,601	3,612	2,387	1,753	2,037	2,218
September	2,942	3,581	2,526	2,006	2,188	2,437
October	2,398	3,049	1,883	1,613	1,676	2,046
November	2,189	2,889	1,591	1,809	1,686	1,912
December	2,533	2,620	1,757	1,902	1,876	2,092
January	3,302	3,006	2,064	2,165	2,255	2,413
February	2,838	2,531	1,473	1,482	1,800	1,979
March	2,534	2,114	1,239	1,201	1,630	1,866
April	2,476	2,218	1,480	1,329	1,945	2,234
May	3,263	2,109	1,429	1,367	1,917	2,175
June	3,585	2,337	1,766	1,786	2,412	

[a] Balances (i) exclude investments in the Lottery for Education Trust Fund, 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 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 Benefits 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, 2011, TRS and the ERS retirement plan for State employees in the executive branch comprise approximately 97% 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 88-91 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, 2011, 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 last actuarial valuation of ERS, as of June 30, 2011, the funded ratio (actuarial value of assets / actuarial accrued liability) was equal to 76.0% (as compared to 80.1% as of June 30, 2010) and the unfunded actuarial accrued liability ("UAAL") as a percentage of covered payroll was equal to 160.4% (as compared to 126.4% as of June 30, 2010). According to the last actuarial valuation of TRS, as of June 30, 2011, the funded ratio was equal to 84.0% (as compared to 85.7% as of June 30, 2010) and the UAAL as a percentage of covered payroll was equal to 104.5% (as compared to 86.8% as of June 30, 2010). 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 2011. 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, 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.

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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 Personnel Administration (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 737 employers. TRS consists of 399 employers. Membership in the plans as of June 30, 2011 is shown below.

	ERS	TRS
Retirees and beneficiaries currently receiving benefits	40,250	92,180
Terminated employees entitled to benefits, but not yet receiving benefits, vested	4,776	7,677
Terminated employees, non-vested	68,142	78,724
Active plan members	66,081	216,167
Total	179,249	394,748

Sources: ERS and TRS Audited Financial Statements

According to the ERS actuarial valuation as of June 30, 2011, ERS receipts (consisting of member and employer contributions and investment earnings for the year) totaled $2,551,800,000 (versus $1,473,648,000 for the year ended June 30, 2010) and ERS disbursements (consisting of benefit payments, member refunds and administrative expenses for the year) totaled $1,190,768,000 (versus $1,151,657,000 for the year ended June 30, 2010). According to the TRS actuarial valuation as of June 30, 2011, TRS receipts (consisting of member and employer contributions, investment earnings and unrealized appreciation for the year) totaled $11,289,032,000 (versus $6,321,251,000 for the year ended June 30, 2010) and TRS disbursements (consisting of benefit payments, member refunds and administrative expenses for the year) totaled $3,130,405,000 (versus $2,874,285,000 for the year ended June 30, 2010).

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.

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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 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 FY 2009 through FY 2011 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 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 studies were completed for the five-year periods ending June 30, 2004 and June 30, 2009. For a more detailed explanation, see "Actuarial Methods and Assumptions" below.

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						
6/30/2011	$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%
6/30/2003	12,428,736	12,370,563	(58,173)	100.5%	2,489,490	(2.3%)
6/30/2002	12,124,414	11,994,850	(129,564)	101.1%	2,408,306	(5.4%)
TRS						
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%)
6/30/2003	42,372,661	41,905,676	(466,985)	101.1%	8,261,961	(5.7%)
6/30/2002	40,502,333	39,706,523	(795,810)	102.0%	7,617,869	(10.4%)

Sources: ERS and TRS actuarial reports.

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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						
6/30/2011	$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%
6/30/2003	11,697,607	12,370,563	672,956	94.6%	2,489,490	27.0%
6/30/2002	11,558,373	11,994,850	436,477	96.4%	2,408,306	18.1%
TRS						
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%
6/30/2003	39,218,540	41,905,676	2,687,136	93.6%	8,261,961	32.5%
6/30/2002	37,831,428	39,706,523	1,875,095	95.3%	7,617,869	24.6%

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					
6/30/2011	$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%
6/30/2003	12,428,736	11,697,607	106.3%	100.5%	94.6%
6/30/2002	12,124,414	11,558,373	104.9%	101.1%	96.4%
TRS					
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%
6/30/2003	42,372,661	39,218,540	108.0%	101.1%	93.6%
6/30/2002	40,502,333	37,831,428	107.1%	102.0%	95.3%

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 investments 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 2011.

HISTORICAL RATES OF RETURN

	ERS	TRS
1 year	21.29%	21.30%
3 years	5.42	5.41
5 years	5.34	5.34
10 years	5.04	5.04
20 years	8.39	8.44

Source: Division of Investment Services, ERS and TRS.

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 2011	7.50%	21.29%	7.50%	21.30%
FY 2010	7.50%	10.99%	7.50%	11.16%
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%
FY 2003	7.25%	4.51%	7.50%	4.56%
FY 2002	7.00%	-3.97%	7.25%	-4.04%

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 Board 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 also 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 Board 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 2011, State general fund appropriations were estimated to comprise approximately 57.5% of the ARC for TRS. State general fund appropriations in FY 2011 for the ARC payments for ERS and TRS were approximately $171 million and $627 million, respectively, and comprised, together, approximately 4.76% of total State general fund appropriations.

For FY 2012, State general fund appropriations also are estimated to comprise approximately 57.5% of the ARC for TRS. State general fund appropriations in FY 2012 for the ARC payments for ERS and TRS are estimated to be approximately $186 million and $620 million, respectively, and are estimated to comprise, together, approximately 4.62% 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, 2011 is 4.75% of covered compensation paid by the employer on behalf of employees.

ANNUAL EMPLOYER CONTRIBUTION STATUS
($ in thousands)

ERS Fiscal Year	ARC	Amount Unfunded	State Portion of ARC[c]	State Portion Amount Unfunded	State Portion as a % of State General Fund Appropriations
2012[a]	$284,300		$242,224		1.39%
2011	261,132	-	222,401	-	1.33%
2010	263,064	-	236,656	-	1.51%
2009[b]	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
2003	246,172	-	NA	-	NA
2002	233,229	-	NA	-	NA

[a] FY 2012 figures reflect the projected total FY 2012 ARC payment (unaudited) and the estimated portion thereof funded by organizations within the State reporting entity.
[b] 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 FY 2001, the total deficit of $6,159,000 is expected to be repaid over ten years. Repayment of the deficit commenced in July 2011 and ERS is receiving a payment of $51,329 per month from the Department of Revenue.
[c] 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

TRS Fiscal Year	ARC	Amount Unfunded	State Portion of ARC[b]	State Portion Amount Unfunded	State Portion as a % of State General Fund Appropriations
2012[a]	$1,077,500		$169,167		0.96%
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%
2003	768,673	-	123,023	-	0.80%
2002	716,917	-	119,391	-	0.80%
				-	

[a] FY 2012 figures reflect the projected total FY 2012 ARC payment (unaudited) and the estimated portion thereof funded by organizations within the State reporting entity.
[b] 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. As of July 2011, the State Auditor estimated that State appropriations comprise approximately 57.5% of the ARC for TRS (or approximately $627 million in FY 2011 and approximately $620 million in FY 2012).
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 2012, FY 2013, and FY 2014 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 2012				
Normal Cost	6.96%			
Less Employer Offset	-4.75			
Employer Normal Cost	2.21	6.96%	2.75%	6.93%
UAAL	4.67	4.67	4.67	3.35
Total Rate	6.88%	11.63%	7.42%	10.28%
For FY 2013				
Normal Cost	6.32%			
Less Employer Offset	-4.75			
Employer Normal Cost	1.57	6.32%	2.96%	6.36%
UAAL	8.58	8.58	8.58	5.05
Total Rate	10.15%	14.90%	11.54%	11.41%
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%

Sources: ERS and TRS actuarial reports.

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Employee contribution rates for ERS and TRS for FY 2012, FY 2013, and FY 2014 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 2012				
Pension contribution	6.00%	1.25%	1.25%	5.53%
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%	5.53%
For FY 2013				
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 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%

Sources: ERS and TRS actuarial reports.

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The following tables indicate, for the applicable fiscal and valuation years, commencing with the fiscal year ending June 30, 2013 and the valuation year ending June 30, 2010, 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 2010 and 2011, the estimated prospective funded ratios for valuation years 2012 through 2015, 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 Cavanaugh Macdonald Consulting LLC. 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, 2011 and utilize the same assumptions as the June 30, 2011 actuarial valuations other than that a 3.5% investment rate of return is assumed for valuation year 2012.

PROJECTED ANNUAL EMPLOYER CONTRIBUTION STATUS
($ in thousands)

TRS

Valuation 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]
2010	2013	11.41%	$10,647,912	$1,214,927	$54,529,416	$63,592,037	$9,062,621	85.7%	$698,583	3.82%
2011	2014	12.28	10,957,582	1,345,591	55,427,716	65,978,640	10,550,924	84.0	773,715	4.12%
2012	2015	12.98	11,285,510	1,464,859	56,334,578	68,520,959	12,186,381	82.2	842,294	4.26%
2013	2016	13.77	11,631,124	1,601,606	57,618,177	71,607,404	13,989,227	80.5	920,923	4.42%
2014	2017	14.68	11,990,802	1,760,250	58,587,407	74,727,891	16,140,484	78.4	1,012,144	4.63%
2015	2018	16.27	12,368,585	2,012,369	60,548,861	79,947,235	19,398,374	75.7	1,157,112	N/A

a Amounts reflect the portion of the projected ARC estimated to be comprised of State general fund appropriations using the State Auditor's July 2011 estimate of 57.5%.

b State general fund appropriations for FY 2013 reflect the budget as enacted and for FY 2014-2017 are based on the most recent revenue estimates of the State Economist (no estimates are available for FY 2018).

ERS

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]
2010	2013	14.90%[a] / 11.54%[b]	$2,449,857	$342,027	$13,046,193	$16,295,352	$3,249,159	80.1%	$224,096	1.23%
2011	2014	18.46 / 15.18	2,487,264	431,911	12,667,557	16,656,905	3,989,348	76.0	282,988	1.51%
2012	2015	21.75 / 18.59	2,516,439	516,614	12,295,276	16,824,026	4,528,750	73.1	338,485	1.71%
2013	2016	23.33 / 20.27	2,545,234	560,392	11,998,350	16,960,806	4,962,456	70.7	367,169	1.76%
2014	2017	24.67 / 21.69	2,569,611	597,975	11,622,828	17,064,076	5,441,248	68.1	391,793	1.79%
2015	2018	25.06 / 22.09	2,588,899	609,861	11,517,229	17,137,307	5,620,078	67.2	399,581	N/A

a Old Plan and New Plan.

b GSEPS.

c Amounts reflect the portion of the projected ARC, 65.52%, estimated to be comprised of State general fund appropriations. This portion of the projected ARC for FY 2013-2018 is based upon actual payments to ERS through the third quarter of FY 2012 (unaudited) 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 for contributions to ERS.

d State general fund appropriations for FY 2013 reflect the budget as enacted and for FY 2014-2017 are based on the most recent revenue estimates of the State Economist (no estimates are available for FY 2018).

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 88-91 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 studies are for the five year periods ended June 30, 2009 and June 30, 2004. ERS' most recent experience studies are for the five year periods ended June 30, 2009 and June 30, 2004.

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, 2011 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.

The TRS actuarial report prepared by Cavanaugh Macdonald Consulting LLC dated May 16, 2012 indicates that, as of June 30, 2011, TRS has an UAAL in the amount of $10.551 billion and was used to set the ARC for FY 2014. Significant actuarial assumptions used in the TRS actuarial report as of June 30, 2011 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% and (e) amortization of the UAAL over a period of 30 years. The smoothed interest rate during the 23-year look forward period initially was determined to be equal to 8.02%. The combination of the 8.02% 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 of return of 7.80%, within the 7.25% - 7.84% corridor 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. As of June 30, 2011, TRS held net assets with a market value of approximately $54.1 billion, an increase of 17.9% from the June 30, 2010 market value of approximately $45.9 billion. As of May 31, 2012, TRS held net assets with a market value of approximately $52.0 billion (unaudited).

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(c) 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 July 2011 in monthly installments of $51,329.

The ERS actuarial report prepared by Cavanaugh Macdonald Consulting LLC dated April 10, 2012 indicates that, as of June 30, 2011, ERS has an UAAL in the amount of $3.989 billion and was used to set the ARC for FY 2014. Significant actuarial assumptions used in the ERS actuarial report as of June 30, 2011 include: (a) an investment rate of return of 7.50%, (b) projected salary increases of 0.00% - 9.25%, (c) an annual inflation rate of 3.00%, (d) no cost-of-living adjustments, and (e) amortization of the UAAL over a period of 30 years. The ERS Board has been provided with information regarding the smoothed valuation interest rate methodology. The ERS Board has not taken any action to adopt this methodology. In the event that the ERS Board decides to make an actuarial methodology change, it would not be expected to be effective until FY 2014 or later.

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. As of June 30, 2011, ERS held net assets with a market value of approximately $12.2 billion, an increase of 11.9% from the June 30, 2010 market value of $10.9 billion. As of May 31, 2012, ERS held net assets with a market value of approximately $11.3 billion (unaudited).

Other Post Employment Benefits 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 Medicare 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.

The Governmental Accounting Standards Board ("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 FY 2007, the State implemented financial reporting requirements for OPEB plans under GASB Statement 43. Beginning with 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,* takes effect. 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 the ERS System:
State Employees' Assurance Department – OPEB (SEAD-OPEB)
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, 2011" 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. SEAD-OPEB is a cost-sharing multiple employer defined benefit post employment plan 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, 2011 follows:

	State OPEB Fund	School OPEB Fund	SEAD-OPEB	BOR Retiree Plan
Retirees and beneficiaries currently receiving benefits	32,167	66,241	-	18,840
Terminated employees entitled to benefits, but not yet receiving benefits SEAD-OPEB includes 33,828 retirees			34,687	-
Active plan members	66,806	255,386	55,516	41,779
Total	98,973	321,627	90,203	60,619

Sources: Audited financial statements of the plans as of June 30, 2011 for the BOR Retiree Plan
Actuarial valuations as of 6/30/2011 for SEAD-OPEB term life insurance plan, 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 of the University System of Georgia (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.

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 Employees 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 2009 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 made available in the State Employees 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 2012 or FY 2013.

Employer contributions to the State OPEB Fund are currently 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 2012, the currently budgeted employer share of pay-as-you-go contributions to the State OPEB Fund is approximately $156 million. Approximately $114 million, or 72% of the employer contributions, is currently budgeted from State general fund appropriations.

Employer contributions to the School OPEB Fund are currently 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 2012, the currently budgeted employer share of pay-as-you-go contributions to the School OPEB Fund is approximately $343 million. Approximately $220 million, or 64% of the employer contributions, is currently budgeted from State general fund 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, 1/4% 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.

Employers currently are not required to contribute to GTLI based on recent valuations by the Plan's actuaries. A valuation analysis is conducted each year and employers will be required to contribute should the analysis indicate contributions to be necessary.

The Board of Community Health has received from Cavanaugh Macdonald Consulting, LLC the report of unfunded actuarial accrued liability ("UAAL") and annual required contributions (the amount required to operate in an "actuarially sound manner", hereinafter referred to as the "ARC") as of June 30, 2011. For the State OPEB Fund, the June 30, 2011 UAAL is valued actuarially at $4,311,635,522. The ARC for FY 2014 is $321,445,891, or 12.64% of active payroll. The June 30, 2011 actuarial valuation considers changes in plan options and premium pricing made by the SHBP for the 2012 calendar plan year, including: the addition of wellness and standard plan offerings for non-Medicare eligible retirees and dependents; increases in co-pays (medical and pharmacy), deductibles and out of pocket maximums; and Medicare Advantage updates such as increases in out of pocket maximums and pharmacy co-pays, and a change in outpatient non-surgical services from co-pays to coinsurance. The valuation also reflects the resolution adopted by the DCH board on December 8, 2011, affecting employees with less than five years of service as of January 2, 2012. Active employees with less than five years of service as of January 2, 2012 are provided with a subsidy at retirement based on years of service, with the appropriate subsidy percentage applied to the blended rate premiums. Blended rate premiums are calculated by blending the experience of the active employees with the pre-Medicare eligible retirees, while retiree specific rates are premium rates calculated on the experience of the retiree-only risk pool. For Medicare-eligible retirees in the Medicare Advantage plans, retiree specific and blended rates are the same because there are no active employees participating in those plans. A subsidy is not provided for Medicare eligible retirees not enrolled in a Medicare Advantage Option.

The UAAL on the June 30, 2010 actuarial valuation was $4,478,408,086. It was expected to increase $14,800,000 due to interest and normal cost accruals, offset by employer contributions. Plan changes together with favorable claims experience reduced the UAAL by $343,600,000; however, this reduction was offset by a by a loss due to the deficiency in the ARC of $174,200,000. In addition, a small gain due to decremental and other experience of $12,200,000 million further reduced the UAAL. With all factors considered the net decrease to the UAAL is $166,772,564.

For the School OPEB Fund, the June 30, 2011 UAAL is valued actuarially at $11,143,125,071. The ARC for FY 2014 is $943,310,062, or 8.48% of active payroll. The UAAL on the June 30, 2010 actuarial valuation was $11,250,342,224. It was expected to increase $81,400,000 due to interest and normal cost accruals, offset by employer contributions. The changes in plan options and premium pricing made to the SHBP for the 2012 calendar year, together with favorable claims experience, reduced the valuation of the UAAL by $935,100,000. This reduction was offset by a loss due to the deficiency in the ARC of $657,400,000 and a small loss due to decremental and other experience of $89,100,000. With all factors considered, the net reduction to the UAAL is $107,217,153.

Also, to facilitate OPEB reporting in accord 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 the 2011 valuation, the ARC for the GTLI program for FY 2014 is $0. The employer also pays 0.22% of the 0.45% of member contributions for ERS old plan members. Under the FY 2010 valuation, the UAAL was actuarially valued at $10,552,456. As of June 30, 2011, the UAAL was actuarially valued at ($129,472,482).

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 Mercer dated August 16, 2011, indicates that as of July 1, 2010 the BOR Retiree Plan has an UAAL in the amount of $3,383,977,404. The ARC for FY 2011 was $411,515,899. For FY 2011, the Board of Regents contributed $80,261,907 to the BOR Retiree Plan for current premiums or claims. Plan members receiving benefits contributed $25,770,842 for current premiums or claims. The report also indicates that in accordance with the parameters of GASB Statement 45, the UAAL will be amortized over a remaining 27-year period from the original 30-year period prescribed by GASB.

The July 1, 2010 valuation used the same actuarial methods as in the prior valuations, but utilized certain changes in actuarial assumptions: changes in health care cost trends, and updates to the health mortality tables, aging factors, retirement rates, and participation.

The following table shows the components of the Board of Regents' annual OPEB cost for FY 2011, 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, 2011
Annual required contribution	$411.5
Interest on net OPEB obligation	31.5
Adjustment to annual required contribution	(45.3)
Annual OPEB cost (expense)	397.7
Less: Contributions made	(80.2)
Increase in net OPEB obligation	317.5
Net OPEB obligation - beginning of year (restated)	699.9
Net OPEB obligation - end of year	$1,017.4

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 actuarial valuation date since implementation of GASB Statement 43 and GASB Statement 45 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						
6/30/2011	$0	$4,311,636	$4,311,636	0.0%	$2,542,891	169.6%
6/30/2010[a]	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[b]						
6/30/2011	0	11,143,125	11,143,125	0.0%	11,127,288	100.1%
6/30/2010[a]	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						
6/30/2011	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%
6/30/2008	737,114	699,884	(37,230)	105.3%	2,850,850	(1.3%)
BOR Retiree Plan						
7/1/2011[c]	na	na	na	na	na	na
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 assumption changes based on experience study of 5-year period ending June 30, 2009.
[b] Salary amount for the School Fund was provided by TRS. 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 $26,192 for 2011, $25,244 for 2010, $24,332 for 2009, and $24,332 for 2008.
[c] BOR Retiree Plan as of 7/1/2011 valuation is not currently available.

Source: Plan actuarial reports and underlying actuarial data

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The following table indicates, on a fiscal year basis, the annual required contribution (ARC), contractually required contribution (CRC), 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 required in FY 2012 and FY 2013 but not in FY 2014.

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

ANNUAL EMPLOYER CONTRIBUTION STATUS
($ in thousands)

OPEB Plan / Fiscal Year	**ARC**	**CRC**	**Percentage of ARC Contributed**	**CRC Amount Unfunded**	**State Portion CRC**	**State Portion Amount Unfunded**
State Plan						
2011	$327,053	$168,384	51.5%	-	$147,812	-
2010[b]	347,772	22,209	6.4%	-	19,516	-
2009	387,790	170,790	44.0%	-	150,756	-
2008	367,508	274,771	74.8%	-	242,526	-
School Plan						
2011	$1,050,851	$339,221	32.3%	-	$1,683	-
2010	1,080,042	308,539	28.6%	-	1,535	-
2009	1,290,050	303,348	23.5%	-	1,571	-
2008	894,861	275,519	30.8%	-	1,373	-
SEAD-OPEB						
2011	-	-	-	-	-	-
2010	-	-	-	-	-	-
2009	-	-	-	-	-	-
2008	-	-	-	-	-	-
BOR Retiree Plan						
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	-
2008[c]	224,900	87,100	38.7%	-	87,100	-

[a] Estimated (unaudited)
[b] Fiscal year 2010 employer contributions to the State Plan are significantly reduced from prior years because current year claims were paid from existing plan assets.
[c] Fiscal years 2008 and 2009 for the BOR Retiree Plan were restated to correct the methodology for determining the split between retiree and active employee claims expense.
Sources: Plan annual reports and actuarial reports and the State of Georgia CAFR

For additional information on the health benefit plans and OPEB, see "Statement of Fiduciary Net Assets Fiduciary Funds June 30, 2011" on pages 32-33 and Note 11, "Postemployment Benefits," on pages 95-99 in Appendix B hereto.

Employee Health Benefit Plans

State Health Benefit Plan. The State Health Benefit Plan ("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") and two plans for public school personnel: (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"). 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 the Department of Community Health ("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.

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.

The DCH board, General Assembly, and Governor approved a variety of plan design changes to SHBP all of which took effect by January 1, 2012. Taken together, these plan changes are projected to result in approximately $86 million in net savings in FY 2012 and $172 million of net savings in FY 2013. Plan changes include:

- voluntary wellness plans where biometric data will be collected on member's blood pressure, glucose, body mass index, and cholesterol;
- coverage of prescription tobacco cessation medication;
- a voluntary health plan option called the TRICARE Supplement;
- eliminating coverage of bariatric surgery;
- eliminating the vision hardware and frames benefit currently covered under the HMO plan;
- providing members the option of enrolling their children in the Children's Health Insurance Program (PeachCare for Kids) if they meet existing CHIP eligibility criteria; and
- Medicare Advantage Plan changes.

In addition to plan design changes, a number of revenue enhancements were implemented for FY 2012. The Non-Certificated Public School Employee Per Member Per Month Contribution Rate was increased from $246.20 to $296.20 effective September 2011. Additionally, employee premiums were increased 11.2% for those enrolling in the wellness plans, or 17.2% for those not enrolling in wellness plans. The General Assembly also appropriated an additional $54.2 million to state agencies to enable the state employer contribution rate to be increased from 27.363% to 34.063% for December 2011 through April 2012 bills.

Additional revenue enhancements will be implemented for FY 2013. The Non-Certificated Public School Employee Per Member Per Month Contribution Rate will increase from $296.20 to $446.20 effective July 2012. The FY 2013 Appropriations Act included an appropriation of $46.1 million to state agencies to enable the state employer contribution rate to increase from 27.363% to 29.781% for July 2012 through June 2013 bills. With all Plan Year 2012 changes and revenue enhancements, the FY 2013 Appropriations Act includes a remaining projected deficit of $63 million. DCH will continue to work with its board, the Governor's Office and General Assembly to address the projected deficit through funding and/or plan change strategies.

The federal health reform bill, the Affordable Care Act ("ACA") has increased costs to the plan by allowing coverage of dependents up to age 26, regardless of marital or student status, employment, residency, or financial dependence, as well as the requirement to cover 100% of preventive coverage as defined by regulation. Employee premiums were increased 6.2% in Plan Year 2012 to cover the additional costs to the plan resulting from these provisions. The SHBP has received two payments from the early retiree reinsurance program under the ACA totaling $57.9 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. A PPO/PPO Consumer healthcare plan was offered for the entire reporting period, and effective 01/01/2011, an HSA/High Deductible PPO and an HMO also were offered on a self-insured basis. The HSA/High Deductible PPO and HMO previously were insured through Blue Cross Blue Shield of Georgia. The University System Office and participating employees and retirees pay premiums to either of the self-insured healthcare plan options to access benefits coverage. The respective self-insured healthcare plan options are included in the financial statements of the Board of Regents of the University System of Georgia – University System Office. 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 options 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 2011: premiums collected of $348,800,813; claims and expenses paid of $340,530,452; Medicare Part D subsidies collected of $5,363,690; prescription rebates of $7,045,819; and other income of $1,225,464, resulting in a fund surplus for FY 2011 of $22,178,334. As of June 30, 2010, the self-funded plans had IBNR claims of $15,654,000 for active employees and $6,756,000 for retirees. As of June 30, 2011, the self-funded plans had IBNR claims of $23,289,175 for active employees and $7,539,783 for retirees, and held investment assets of $9.5 million in the self-funded reserve fund.

The Board of Regents implemented several plan changes to address potential deficits. In recent years these include: increasing the employee contribution from 25% to 30%, increasing premium rates, eliminating the indemnity health care plan option, seeding of the new high deductible plan health savings account, implementing a more restrictive version of the PPO plan, converting the high-deductible plan and one HMO plan to the self-funding basis, and adding a tobacco surcharge. For calendar year 2011, the Board of Regents approved premium increases to reflect additional medical costs. For calendar 2012, employee contributions continued to be raised, including raising the employee contributions for the high-deductible plan by more than 50%. In addition, benefit eligibility rules were made more restrictive and the Board of Regents achieved substantial cost avoidance by using special pharmacy programs. The Board of Regents continues to engage a special task force to consider additional changes to maintain a financially sound plan for health care funding, both for the short term and the long term.

Significant Contingent Liabilities

Western Surety Company and Continental Casualty Company v. the State of Georgia, Department of Transportation, Heard County Superior Court Civil Case No. 08-v-106, filed on March 18, 2008. The plaintiffs, Western Surety Company and Continental Casualty Company (collectively, "Western Surety") were the sureties for Bruce Albea Company ("BAC") on a Georgia Department of Transportation ("GDOT") project. On June 29, 2007, BAC delivered a notice to GDOT advising that it was voluntarily abandoning the project. GDOT directed Western Surety to take over the work in accordance with the construction contract and Western Surety subsequently hired a completion contractor. Western Surety filed this action against GDOT on March 18, 2008 alleging three breach of contract causes of action, two related to price escalations of asphalt both prior to and subsequent to the original completion date, and the third alleging the failure to pay an outstanding contract balance in excess of $500,000 for work performed by the completion contractor. Western Surety also alleges a claim under the Prompt Payment Act. Western Surety's initial estimate of damages was approximately $9,000,000. The parties went to mediation in March 2010, but failed to reach a settlement. On March 9, 2010, GDOT filed a motion for partial summary judgment on the majority of the issues. The hearing on the motion was held on March 28, 2011; however, based on arguments made by Western Surety during the summary judgment hearing it now appears that the damages sought by Western Surety have been reduced to $4,500,000. The Court has not rendered a decision on the motion and discovery is ongoing.

Citibank Tax-related Litigation. In *Citibank USA, N.A., et al. v. Bart L. Graham*, Fulton County Superior Court Civil Case No. 2005-CV-109444, filed by Citibank USA, N.A., on December 2, 2005 (the "2005 Citibank case"), Citibank sought a tax refund of $2,281,990 from DOR. The Court found in favor of DOR and Citibank's application for discretionary appeal was denied by the Georgia Court of Appeals. Citibank USA, N.A., its successor in interest, and other related entities (hereinafter collectively referred to as "Citibank") subsequently filed a number of separate but related lawsuits against DOR. In each of such cases, as described below, DOR has asserted the defense of collateral estoppel, as the legal issue in each case involves the same legal issue decided in favor of DOR in the 2005 Citibank case.

Citibank (S.D.), N.A., et al. v. Bart L. Graham, Ga. Court of Appeals Case No. A11A2211, on appeal from Fulton County Superior Court Civil Case No. 2007-CV-140161, filed on September 20, 2007. Citibank seeks a sales tax refund of $10,147,730 from DOR. DOR filed a motion to dismiss on May 12, 2008. On February 11, 2011, the Superior Court granted DOR's motion to dismiss. Citibank appealed to the Georgia Court of Appeals (the "Ga. Court of Appeals"), and on March 23, 2012, the Ga. Court of Appeals affirmed the trial court in a written decision, 2012 Ga. App. LEXIS 330; 2012 Fulton County D. Rep. 1248. Citibank filed a Petition for Certiorari to the Georgia Supreme Court on April 12, 2012, and DOR responded on May 2, 2012. The parties are now waiting for a decision from the Georgia Supreme Court on the Petition for Certiorari.

Citibank (S.D.), N.A., et al. v. Bart L. Graham, Fulton County Superior Court Civil Case No. 2009-CV-179332, filed on December 23, 2009. Citibank seeks a sales tax refund of $3,206,523 from DOR. DOR filed an answer on January 20, 2010 claiming collateral estoppel, as this case involves the same legal issue decided in favor of DOR in the 2005 Citibank case.

Citicorp Trust Bank v. Bart L. Graham, Fulton County Superior Court Civil Case No. 2010-CV-191950, filed on October 8, 2010. Citicorp seeks a sales tax refund of $2,972,698 from DOR. DOR filed an answer on November 11, 2010 claiming collateral estoppel, as this case involves the same legal issue decided in favor of DOR in the 2005 Citibank case.

Kenny A., et al. v. Nathan Deal, Department of Human Services, et al., United States Court of Appeals for the Eleventh Circuit, Case Nos. 06-15514, 06-15874. This was a class action lawsuit filed on June 6, 2002 on behalf of 2,200 children in state custody asserting systemic deficiencies in foster care in Fulton and DeKalb counties. A consent decree was entered wherein the Department of Human Services ("DHS") (successor to certain powers, functions and duties of the former Department of Human Resources) agreed to make a number of specific system-wide management and infrastructure reforms (the "Consent Decree").

The United States District Court for the Northern District of Georgia (the "N.D. Ga. District Court") appointed two independent accountability agents to monitor DHS's progress and awarded attorneys' fees and costs to the plaintiffs in the amount of $10.5 million, of which $4.5 million was the result of a 1.75 multiplier applied by the N.D. Ga. District Court. DHS appealed the award of attorneys' fees to the Eleventh Circuit Court of Appeals (the "Eleventh Circuit"). In July 2008, the Eleventh Circuit affirmed the entire award. However, the majority opinion noted that although the panel affirmed the 1.75 multiplier applied by the N.D. Ga. District Court to the attorneys' fees and costs, they did so because they were bound by Eleventh Circuit precedent which the opinion noted may conflict with that of the United States Supreme Court (the "U.S. Supreme Court"). DHS filed a petition for rehearing *en banc* in the Eleventh Circuit, which was denied on November 5, 2008. On April 6, 2009, the U.S. Supreme Court granted the State's petition for certiorari on the award of attorney's fees and costs in this case, and oral argument was conducted before the U.S. Supreme Court on October 14, 2009. On April 21, 2010, the U.S. Supreme Court issued a decision in the case vacating and remanding the N.D. Ga. District Court's multiplier portion of its award of attorneys' fees and costs to Plaintiffs' counsel, holding that the N.D. Ga. District Court did not provide a proper justification for the amount of the multiplier (*Perdue v. Kenny A.*, 130 S. Ct. 1662 (2010). On remand, the Eleventh Circuit ordered the parties to mediation, which was held on August 25, 2010. The parties were unable to reach an agreement on the amount of the multiplier and on November 15, 2010, Plaintiffs filed a renewed motion for attorneys' fees and costs with the N.D. Ga. District Court. In the interim, the State has paid the undisputed portion of the requested fees in the amount of $8.1 million. Plaintiffs filed an additional request for attorneys' fees and litigation expenses in excess of $1,000,000 incurred over the past compliance period, and in April 2012, the parties settled on a $750,000 amount for such fees and expenses, which was paid by DHS to Plaintiffs' counsel on May 31, 2012.

In addition, Plaintiffs sought and received payment from the State in June 2010 of an additional $1 million in attorneys' fees related to the State's efforts to comply with the Consent Decree. On March 31, 2011, the N.D. Ga. District conducted a hearing on the award of attorneys' fees. On July 19, 2011, the N.D. Ga. District Court entered two written orders. In the first order, the Plaintiffs' request for any enhancement of the multiplier of their original award was denied as there was no evidence in the record to support it. In the second order, while Plaintiffs' request for attorneys' fees and expenses related to the State's appeal to the Eleventh Circuit was denied, the N.D. Ga. District Court determined that Plaintiffs partially prevailed in the appeal to the Supreme Court, and thus would be permitted to submit a request for all fees and expenses related to their work on the appeal to the Supreme Court. Plaintiffs in turn submitted their request for a total of $995,895.53. The State's response was submitted to the N.D. Ga. District Court on September 6, 2011 in which the State alternatively argued that Plaintiffs are not entitled to any award, but if the N.D. Ga. District Court should determine that they are, then they should be awarded only approximately $330,000. The Plaintiffs filed a reply brief on September 23, 2011. In December 2011, the parties settled on a $550,000 amount for attorney's fees and expenses related to the Supreme Court appeal and the Plaintiffs withdrew their motion related to such fees.

In the underlying litigation regarding compliance with the Consent Decree regarding placement of children in Department of Family and Children's Services custody for Fulton and DeKalb counties (*Kenny A., et al. v. Sonny Perdue, et al.*, N.D. Ga. District Court Case No. 1:02-CV-01686-MHS), on November 23, 2010 the N.D. Ga. District Court entered a stipulated modification of the Consent Decree regarding measurement and reporting of DHS's performance thereunder. On April 12, 2011, due to Fulton County's substantial compliance with all material aspects of the Consent Decree for eighteen consecutive months, the N.D. Ga. District Court entered a consent decree to terminate the N.D. Ga. District Court's jurisdiction over Fulton County and dismissing the action as it pertains to Fulton County and the Consent Decree. The N.D. Ga. District Court also approved the payment of $145,000 in attorneys' fees and expenses related to the Fulton County portion of the action.

Master Tobacco Settlement. Pursuant to the terms of the 1998 Master Settlement Agreement ("MSA") entered into between the Attorneys General of 46 states, including the State of Georgia, the District of Columbia, and the four U.S. Territories (collectively, the "Settling States"), and the major tobacco companies and other companies that have joined the MSA since its execution (collectively the "participating manufacturers"), the participating manufacturers must make payments into the Tobacco Settlement Fund to compensate the Settling States for Medicaid and other public health expenses incurred in the treatment of tobacco-related illnesses (Florida, Minnesota, Mississippi, and Texas settled separately). The State receives annual payments from the Tobacco Settlement Fund which are paid into the State Treasury and appropriated by the General Assembly. The participating manufacturers have commenced arbitration against the Settling States under the terms of the MSA in which the participating manufacturers contend that the amount of their payments to the Settling States for 2003 should be reduced. The State of Georgia asserts that it has acted properly and that the participating manufacturers are not entitled to a reduction in the amount of payments to be made to the State. In the event of a final determination in favor of the participating manufacturers, the current payments due to the State from the Tobacco Settlement Fund would be reduced in order to recapture any overpayment for 2003. With respect to the State of Georgia, the maximum potential reduction of funds to the State would not exceed the total fund payments of $129.13 million received by the State in 2003. Recently, the participating manufacturers asked the arbitrators to rule that they have the right under the MSA to withhold disputed monies from their annual payments pending the outcome of arbitration over their claims. The arbitrators ruled that the independent auditor for the MSA cannot apply an interim adjustment to the 2003 payments until an arbitration panel makes a final determination. The current arbitration proceeding is expected to last well into calendar year 2013. The hearing specific to the State of Georgia is set for mid-January 2013. No ruling will be issued immediately following the hearing, however, a ruling is anticipated prior to the scheduled April 2014 payment date, as the ruling will affect the settlement payments due on that date. The participating manufacturers have stated that they will seek arbitration over adjustments for calendar year 2004 and subsequent calendar years. On November 4, 2011 the participating manufacturers contested the diligent enforcement efforts of thirty-three states, including Georgia, as well as the District of Columbia and Puerto Rico.

Phoenix Development and Land Investment, LLC v. BOR, Athens-Clarke County Superior Court, Civil Case No. SU11CV0977, filed on June 30, 2011. The plaintiff, Phoenix Development and Land Investment ("LLC") purchased real property adjacent to property owned by the Board of Regents of the University System of Georgia ("BOR"), upon which BOR inadvertently had placed part of an inert landfill across the adjoining property line prior to Phoenix's purchase. After negotiations between the parties, Phoenix filed an ante litem notice and subsequent lawsuit against BOR, claiming trespass, nuisance and inverse condemnation. Phoenix has claimed damages in the amount of $16,000,000. In between the submission of the ante litem notice and the filing of the lawsuit, Phoenix filed for Chapter 11 bankruptcy protection in the Middle District of Ga., Athens division. In order to properly close the landfill in accordance with Ga. EPD regulations, BOR must have record title to the entire landfill plus a 100-foot buffer zone. However, a bank holding the security interest in the Phoenix tract has been granted relief from the bankruptcy stay to foreclose on the tract. BOR's position is that it already owns a property interest in the land being disputed by virtue of the earlier "inadvertent taking," and the subsequent expiration of the applicable limitations period(s). BOR will assert its property interests in the Superior Court litigation, and believes that any potential recovery is limited to the reduction in the market value of the property. The parties went to mediation in April 2012, but failed to reach a settlement. BOR filed a Request for Relief from Stay in the Bankruptcy Court, seeking permission to file a counterclaim for quiet title in the Superior Court action, which was granted on April 27, 2012. BOR has filed a counterclaim for quiet title to protect its interests in the disputed property prior to any foreclosure or sale of the property. Discovery is ongoing with dispositive motions scheduled to be heard in November 2012, with an anticipated trial date in early 2013.

Significant Matters

Interstate Water Disputes Among Georgia, Alabama and Florida. The State is involved in litigation in the United States District Court for the Middle District of Florida (the "M.D. Fl. District Court"), the United States District Court for the Northern District of Alabama (the N.D. Al. District Court"), and the Eleventh Circuit Court of Appeals concerning the operation of U.S. Army Corps of Engineers ("Corps") dams and reservoirs on the Chattahoochee and Etowah Rivers in Georgia for water supply and other purposes. Buford Dam impounds the Chattahoochee River to form Lake Lanier and is part of the Apalachicola-Chattahoochee-Flint ("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 Alabama-Coosa-Tallapoosa ("ACT") River Basin, which is shared by Alabama and Georgia.

Several cases involving the federal reservoirs in the ACF River Basin were consolidated by the Judicial Panel on Multidistrict Litigation (the "JPML") and assigned to U.S. District Judge Paul Magnuson in the M.D. Fl. District Court (the "ACF River Basin Litigation"). The ACF River Basin Litigation is docketed as ***MDL-1824 In Re Tri-State Water Rights Litigation***, M.D. Fl., Case No. 3:07-MD-1. The main components of the ACF River Basin Litigation are: (1) several cases involving the authority of the Corps to operate Lake Lanier for water supply (this portion of the ACF River Basin Litigation is referred to as "Phase 1"), and (2) cases dealing with the quantity of water that the Corps must release from the federal reservoirs in the ACF River Basin to support the habitats of certain endangered and threatened species in the Apalachicola River in Florida pursuant to the Endangered Species Act (the "ESA") (this portion of the ACF River Basin Litigation is referred to as "Phase 2").

Phase 1 of the ACF River Basin Litigation involves primarily interpretation of two statutes that govern the Corps' authority to operate Buford Dam and Lake Lanier: the River and Harbor Act of 1946 (the "1946 RHA") and the Water Supply Act of 1958 (the "WSA"). The 1946 RHA is the statute that authorized the construction of Buford Dam and Lake Lanier. The State of Georgia maintains that the 1946 RHA authorizes the Corps to modify its operations over time to meet evolving water supply needs. The States of Alabama, Florida, and other parties aligned with them (the "Alabama/Florida Parties") argue that the 1946 RHA merely allows the Corps to make available for water supply whatever water results incidentally from releases that are made to maximize the hydropower benefit from Lake Lanier. Construction of the Buford Dam/Lake Lanier project commenced in 1950 and took approximately six years. In 1958, the U.S. Congress enacted the WSA. The WSA allows the Corps to include storage in any reservoir project nationwide for municipal water supply, subject to certain restrictions.

During the 1970's, federal, state, and local governments conducted a joint study that concluded that the most favorable source of future water supply for metropolitan Atlanta was Lake Lanier. In the 1970's, the Corps began to enter into short-term contracts with certain Georgia municipalities to provide them with water supply from the Buford Dam/Lake Lanier project pending a permanent reallocation of storage in Lake Lanier to water supply. In 1989, the Corps issued a draft proposal to reallocate storage in Lake Lanier to water supply, and in 1990, Alabama sued the Corps to block that proposal. Georgia and Florida moved to intervene in that litigation, and it was stayed for more than a decade to allow negotiations to proceed.

On July 17, 2009, Judge Magnuson reached a decision in Phase 1 of the ACF River Basin Litigation (the "Phase 1 District Court Order"). In the Phase 1 District Court Order, Judge Magnuson held, among other things, that: (1) water supply is not an authorized purpose of the Buford Dam/Lake Lanier project under the 1946 RHA; and (2) the Corps' operations to meet current (and therefore also future) water supply demands exceed the supplemental authority that the WSA provides. The Phase 1 District Court Order provided that the Corps could continue operating Lake Lanier to meet current water supply needs until July 17, 2012, to allow time for federal legislation authorizing such operations, or for some alternative form of settlement among the parties. According to the Phase 1 District Court Order, in the absence of such legislation or settlement, as of July 17, 2012, direct water supply withdrawals from Lake Lanier (with the exception of certain withdrawals by the Cities of Buford and Gainesville) would have to cease, and releases from Buford Dam for water supply use downstream would have to revert to what Judge Magnuson found to be the "baseline" operation of the mid-1970's, which would result in a substantial reduction from the current levels of water supply withdrawals for the affected municipal water systems. The State of Georgia, other parties aligned with it, and the Corps appealed the Phase 1 District Court Order to the Eleventh Circuit. The appeals are docketed as ***In Re: MDL-1824 Tri-***

State Water Rights Litigation, United States Court of Appeals for the Eleventh Circuit Case Nos. 09-14657-G, 09-14810-G, and 09-14811-G.

On June 28, 2011, the Eleventh Circuit issued a decision (the "Eleventh Circuit Decision") reversing the Phase 1 District Court Order. The Eleventh Circuit Decision held, among other things, that (1) water supply is an authorized purpose of Lake Lanier under 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; (5) the WSA supplies supplemental authority, in addition to the authority under the 1946 RHA, for the Corps to reallocate storage to water supply; and (6) the M.D. Fl. District Court lacked jurisdiction to hear the Alabama/Florida Parties' Phase 1 claims because they were not challenges to any final agency action. The Eleventh Circuit remanded the case to the M.D. Fl. District Court with instructions for the M.D. Fl. District Court to remand the State of Georgia's water supply request to the Corps for 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. The Alabama/Florida Parties petitioned the Eleventh Circuit for rehearing. The Eleventh Circuit denied that petition on September 16, 2011. The Alabama/Florida Parties filed a petition for certiorari to the United States Supreme Court. On June 25, 2012, the U.S. Supreme Court denied the petition for certiorari and the Eleventh Circuit Decision stands.

In Phase 2 of the ACF River Basin Litigation, the State of Florida and other parties aligned with it (the "Florida Parties") claimed that the Corps' operating plan for the federal reservoirs in the ACF River Basin would place certain endangered and threatened species in jeopardy and result in adverse modification of the critical habitats of those species in violation of the ESA. An analysis by the United States Fish and Wildlife Service (the "FWS") found that the Corps' operating plan would not violate the ESA. On July 21, 2010, Judge Magnuson entered summary judgment in favor of the Corps and the FWS and against the Florida Parties as to all claims in Phase 2 of the ACF River Basin Litigation (the "Phase 2 District Court Order"). The Florida Parties appealed the Phase 2 District Court Order to the Eleventh Circuit on September 20, 2010 and subsequently moved to stay those appeals pending further consultation between the Corps and FWS regarding the Corps' interim operating plan. At present, the Florida Parties' opening briefs in the Phase 2 appeals are due on October 23, 2012. The Phase 2 appeals are docketed as *State of Florida v. U.S. Army Corps of Engineers*, United States Court of Appeals for the Eleventh Circuit Case Nos. 10-14403 & 10-14511.

In addition to the ACF River Basin Litigation, the litigation concerning the Corps' reservoir operations in the ACT River Basin and a permit that the Corps issued for the construction of the Hickory Log Creek Reservoir is pending in the N.D. Al. District Court (the "ACT River Basin Litigation"). The ACT River Basin Litigation includes claims by Alabama and parties aligned with it (the "Alabama Parties") that the Corps has exceeded its authority under the WSA through its operation of Lake Allatoona; that the Corps has acted illegally in allowing the Cobb-Marietta Water Authority ("CCMWA"), which supplies potable water to several large municipal water systems, including Cobb County, in the northwestern metropolitan Atlanta region, to allegedly withdraw more water than is allowed under CCMWA's storage contract with the Corps; and that the Corps violated the National Environmental Policy Act and other statutes when it issued the permit to the City of Canton and CCMWA for the Hickory Log Creek Reservoir. The ACT River Basin Litigation is docketed as *Alabama, et al. v. U.S. Army Corps of Engineers, et al.*, N.D. Al. District Court Case No. 1:90-CV-01331. The ACT River Basin Litigation has been stayed for much of the past twenty years. The Alabama Parties recently asked the N.D. Al. District Court to lift the stay to allow Alabama to proceed with the ACT River Basin Litigation. The Corps, and the State of Georgia and parties aligned with it, contend that most of the claims in the ACT River Basin Litigation (including all of those challenging operation of Lake Allatoona for water supply) should be dismissed based on the Eleventh Circuit Decision in the ACF River Basin Litigation, and that the remaining claims should be dismissed on other grounds. The N.D. Al. District Court allowed Georgia and the other defendants, including the Corps, to file motions to dismiss the ACT River Basin Litigation on the basis of the Eleventh Circuit Decision. Such motions to dismiss have been filed. The Alabama Parties oppose the motions to dismiss. A hearing on the motions to dismiss is scheduled for June 29, 2012. Were the Alabama Parties to prevail in the ACT River Basin Litigation, the result could be that water supply to CCMWA could be limited or curtailed, and the amount of water available for water supply from the Hickory Log Creek Reservoir could be limited or curtailed.

Borrowing for Funding of State Unemployment Benefits. 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. Thirty states, including Georgia, are currently utilizing this program. Under O.C.G.A. § 34-8-87, the Commissioner of Labor is authorized to borrow such funds from the United States Treasury. Such borrowed funds must only be used if and when the Unemployment Compensation Fund is depleted, and all borrowed funds must be used only for the purpose of paying unemployment benefits to eligible persons. As of June 11, 2012, the balance of outstanding loans from FUA to the State of Georgia was $746,880,933. Based on current economic conditions, claim costs, and projected unemployment tax contributions, no additional advances are projected to be needed during the remainder of calendar year 2012. The General Assembly passed legislation (H.B. 347) during its 2012 legislative session to make changes to the employment security system to enable the outstanding balance of FUA borrowings to be repaid more quickly and then begin to rebuild reserves. This legislation, approved by the Governor on May 2, 2012 (Act 710) increased the taxable wage base from $7,500 to $8,500 through December 31, 2012 to $9,500 thereafter and instituted an automatic surcharge on employers when the state-wide reserve ratio is less than 1.25% in order to increase estimated unemployment tax revenues. The legislation 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. These changes are projected to support repayment of the outstanding balance of FUA borrowings and provide adequate funding of the employment security system in the future. Congress provided a temporary waiver of interest accrual on such FUA borrowings during 2010 as part of the Federal stimulus program legislation. That waiver expired December 31, 2010. All interest payments which have become due have been paid. Interest is currently accruing at 2.94299868% per annum during the accrual period which began October 1, 2011 (the applicable interest rate changes annually). 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, thus other state funds must be used to pay interest costs. On September 30, 2011 the State made an interest payment of $21,041,644; the State budgeted $24,898,376 in the FY 2013 General Fund budget for the interest payment that will be due on September 30, 2012, and that amount is believed to be adequate to cover the 2012 interest cost. All 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 would pay an additional $21.00 per year per employee in federal unemployment taxes and such additional amount would increase each year (by additional credit reductions) until the borrowing is repaid.

Department of Behavioral Health and Development Disabilities ("DBHDD"). In January 2009, the Department of Justice ("DOJ") filed a complaint in the United States District Court for the Northern District of Georgia, Civil Case No. 1:09-CV-119-CAP, under the Civil Rights of Institutional Persons Act ("CRIPA"), resulting in a five year CRIPA Settlement Agreement with respect to the seven State-operated psychiatric hospitals. In accordance with that agreement, the State of Georgia has made changes to its facilities and operations, including hiring a nationally recognized expert and his team to lead the process. Notwithstanding the changes, in January 2010, DOJ filed a motion to amend its complaint and contemporaneously filed a new complaint under the Americans with Disabilities Act in the United States District Court for the Northern District of Georgia (the "N.D. Ga. District Court"), Civil Case No. 1:10-CV-249. Along with the new complaint, DOJ sought a preliminary injunction seeking the appointment of a monitor to implement DOJ's requested relief. On October 19, 2010, the parties entered into a comprehensive settlement agreement, focusing on providing treatment in community settings rather than state hospitals (the "ADA Settlement Agreement"). Pursuant to the ADA Settlement Agreement, the motion for preliminary injunction was withdrawn and the action was conditionally dismissed, with the Court retaining jurisdiction to enforce the ADA Settlement Agreement. The changes in treatment required under the ADA Settlement Agreement will result in substantial additional costs to be incurred by DBHDD.

DBHDD's provision of behavioral health and development disability services has also been impacted by the U.S. Supreme Court's decision in *Olmstead v. L.C.*, issued on June 22, 1999, which held that unnecessary segregation of individuals in institutions may constitute discrimination based on disability. *Olmstead* also recognized the States' need to maintain a range of facilities for the care and treatment of persons with diverse disabilities, and thus the need to consider the resources available for providing a range of services in addition to services in the community. The decision suggested that a state could establish compliance with ADA if it demonstrated that it has a comprehensive, effectively working plan for placing eligible persons with disabilities in less restrictive settings, and a waiting list that moves at a reasonable pace given the resources available and not controlled by trying to keep the State's institutions fully populated.

DBHDD continues to transition developmentally disabled persons and persons with mental health disorders to the community at a reasonable pace. In accordance with the CRIPA Agreement with DOJ, the State has made changes in the staffing plans for the hospitals, and the way that treatment and discharge planning are managed for all consumers. On October 6, 2011, the Independent Reviewer retained to monitor compliance under the ADA Settlement Agreement filed her initial report with the N.D. Ga. District Court. While the report included a discussion of areas in need of continued improvement, the Independent Reviewer concluded that the State has demonstrated good faith and commitment in its implementation of its obligations under the ADA Settlement Agreement and has demonstrated that it can and will honor its obligation to comply with the substantive provisions thereof.

Knipp, et al. v. Deal, et al., United States District Court for the Northern District of Georgia Civil Case No. 1:10-CV-2850, filed on September 9, 2010. Six plaintiffs purportedly suffering from mental or developmental disabilities filed a claim for relief against DCH and DBHDD under the ADA and the *Olmstead* decision with respect to the alleged termination of certain Medicaid benefits for community-based behavioral health disability services. The plaintiffs have filed a motion seeking preliminary injunctive relief including reinstatement of the allegedly terminated benefits. A hearing on the motion was held on October 7, 2010 and a preliminary injunction was entered by the Court, which has been extended through September 18, 2012. The State has until October 22, 2012 to file any defensive pleadings. DOJ has filed a motion to intervene.

United States Department of Health and Human Services Review of Data Storage Charges Relative to Certain Federal Programs. The United States Department of Health and Human Services, Division of Cost Allocation ("HHS-DCA") is in the process of conducting a review of charges billed to federal programs administered by the Department of Human Services ("DHS") and the Department of Behavioral Health and Developmental Disabilities ("DBHDD"). The review relates to charges paid by the Department of Human Resources ("DHR"), the predecessor to DHS and DBHDD, for certain data storage services provided by the Georgia Technology Authority ("GTA") to DHR during federal fiscal year 2004. It is anticipated that HHS-DCA will conduct a review of federal fiscal years 2005 through 2009 and HHS-DCA could determine that additional amounts are due. GTA has not received a final determination regarding the amount that HHS-DCA has determined to be due to HHS-DCA, but GTA anticipates that HHS-DCA will determine an amount to be due. GTA has established a cash reserve of approximately $18,000,000 for purposes of this liability. If an amount beyond the cash reserve is determined to be due, any such additional amount will have to come from other funds of GTA or DHS and DBHDD, and likely will require additional appropriations to DHS and DBHDD for purposes of payment.

Immigration Legislation. During its 2011 session, the General Assembly passed the Illegal Immigration Reform and Enforcement Act of 2011 (Ga. L. 2011, Volume One, Book One, p. 794, *et seq.*, Act No. 252, H.B. 87, signed by the Governor on May 13, 2011 and effective July 1, 2011, referred to herein as "HB87"). The provisions of HB87 include, but are not limited to, provisions addressing criminal laws regarding: identity fraud, transporting and harboring persons that are present in the United States illegally, requiring governmental bodies to obtain affidavits from contractors entering into contracts with governmental bodies involving activities defined as physical performance of services within the State regarding their participation in a specifically defined work authorization program, requiring private employers having more than ten employees to register with and utilize a specifically defined federal work authorization program, and requiring governmental bodies to obtain affidavits from certain persons regarding their participation in the specifically defined work authorization program before issuance or renewal of a business license, occupational tax certificate or other document required to operate a business. On June 2, 2011, the Georgia Latino Alliance for Human Rights and a number of other plaintiffs filed suit in the United States District Court for the Northern District of Georgia against the Governor and a number of other State officials as well as one local official seeking a declaratory judgment and injunctive relief regarding the constitutionality of HB87 (*Georgia Latino Alliance for Human Rights, et al v. Deal, et al.*, Civil Case No. 1:11-CV-1804). On June 27, 2011, the Court enjoined the enforcement of two sections of HB87. Specifically, the Court prohibited enforcement of Section 7 which criminalizes behavior for those who facilitate illegal immigration by knowingly and intentionally harboring, enticing or transporting and illegal aliens within the State. The Court also enjoined the enforcement of Section 8 which authorizes Georgia law enforcement officers to reasonably investigate immigration status where they have probable cause to believe a crime has been committed. The State appealed the grant of the injunction to the Eleventh Circuit Court of Appeals on July 8, 2011 and the case is stayed pending resolution of the appeal (United States Court of Appeals for the Eleventh Circuit, Case No. 11-13044). The State filed its appellate brief on August 15, 2011, and an updated reply brief on October 28, 2011. Oral argument was conducted before the Eleventh Circuit Court of Appeals on March 1, 2012. The Eleventh Circuit Court of Appeals has indicated that it will delay issuing an opinion until the U.S. Supreme Court has decided Arizona v. United States, U.S. Case No. 11-182, filed April 22, 2011, where the question presented is whether the federal immigration laws preclude certain provisions of Arizona's immigration laws. Arizona v. United States was argued in front of the U.S. Supreme Court on April 25, 2012. The U.S. Supreme Court issued its opinion in Arizona v. United States on June 25, 2012.

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, 2011” Notes to the Financial Statements - Note 12: Risk Management” herein.

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APPENDIX B

STATE OF GEORGIA
Basic Financial Statements
For Fiscal Year Ended
June 30, 2011

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State of Georgia

Comprehensive Annual Financial Report

Prepared by
State Accounting Office
December 30, 2011

Fiscal Year Ended June 30, 2011

Georgia State Capitol

Atlanta is the fifth permanent capital city of Georgia. Construction began in October 1884, and the building was completed in 1889. Governor John B. Gordon dedicated the new Capitol on July 4, 1889, to "the indomitable will of the people."

During National Historic Preservation Week in 1977, the Capitol was dedicated as a National Historic Landmark. National Park Service of the Department of Interior cited the Capitol as an outstanding structure both architecturally and historically.

The Capitol is open to the public Monday—Friday, 8:00 a.m. to 5:00 p.m. Guided tours are available.

For additional information on this site, please visit http://sos.georgia.gov/.

State of Georgia

Comprehensive Annual Financial Report
For the fiscal year ended June 30, 2011

Prepared by:
State Accounting Office


STATE OF GEORGIA
CONSTITUTION
WISDOM
JUSTICE
MODERATION
1776

State of Georgia

Table of Contents
For the Fiscal Year Ended June 30, 2011

INTRODUCTORY SECTION

FINANCIAL SECTION

STATE OF GEORGIA

CONSTITUTION

WISDOM JUSTICE MODERATION

1776

Table of Contents
For the Fiscal Year Ended June 30, 2011

STATISTICAL SECTION


STATE OF GEORGIA
CONSTITUTION
WISDOM
JUSTICE
MODERATION
1776

Introductory Section

State Accounting Office of Georgia
Fiscal Leadership for Georgia

Nathan Deal
Governor

Greg S. Griffin
State Accounting Officer

200 Piedmont Avenue 1604 West Tower Atlanta, GA 30334 Phone (404) 656-2133 Fax (404) 463-5089

December 30, 2011

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 for the fiscal year ended June 30, 2011, in accordance with the *Official Code of Georgia Annotated*, Section 50-50b-3(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 of Georgia's finances. Management assumes full responsibility for the completeness and reliability of the information presented. This report reflects my commitment to you 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 State 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 and that the evaluation of costs and benefits requires estimates and judgments by 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 performed an examination of the accompanying financial statements for the State of Georgia and has issued an unqualified opinion on the State's Basic Financial Statements included in this report. The State Auditor's opinion is included in the Financial Section of 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 State Auditor's report, 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 of Georgia, 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. Georgia 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. Georgia'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. Georgia is the ninth largest state with an estimated population of 9.7 million people.

Reporting Entity

The *Constitution of the State of Georgia (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 viii. The duties of each branch are outlined in the *Constitution* and in the *Official Code of Georgia Annotated.*

For financial reporting purposes, the State of Georgia'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 units 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. 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 2011 can be found in the *Budgetary Compliance Report (BCR)* separately issued on November 18, 2011.

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. Each fiscal year, the General Assembly may appropriate from the RSR an amount up to one percent (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 four percent (4%) of the net revenue collections of the preceding fiscal year. The RSR cannot exceed fifteen percent (15%) of the previous fiscal year's net revenue collections. Additional information about the State's RSR balances can be found in MD&A.

ECONOMIC FACTORS AND OUTLOOK

Introduction

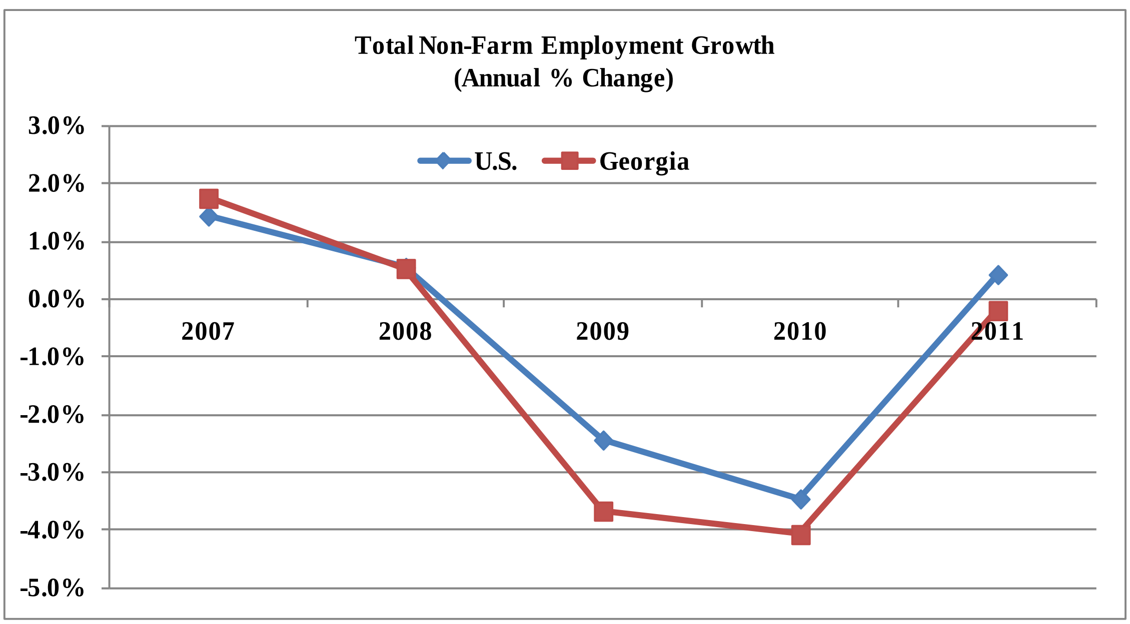
According to the State's Fiscal Economist, who prepared this section describing recent developments in the Georgia economy, the national and Georgia economies continued to feel the effects of the Great

Recession in fiscal year 2011. The Great Recession, so-called due to the fact that it was the most severe economic downturn since the Great Depression, began in December 2007 and ended in June 2009. Since then, the pace of economic recovery has been relatively weak. A variety of factors have weighed on economic growth. Housing markets still face high foreclosure rates, weak sales volumes, and declining values. Consumer spending is growing but households have increased savings rates in response to the drop in home values and the loss in equity values that occurred during the Great Recession. This has held consumer spending growth below rates experienced in more typical recoveries. Business and consumer confidence have suffered due in part to the contentious U.S. debt negotiations and the financial turmoil associated with the sovereign debt crisis in Europe. The following summary reviews some of the key economic trends in Georgia during fiscal year 2011 relative to U.S. performance.

Employment

Figure 1 shows annual employment growth in the U.S. and in Georgia for the last five fiscal years. Georgia's total non-farm employment decreased by 7,000 jobs or 0.2 percent in fiscal year 2011 compared to fiscal year 2010. In contrast, total non-farm employment grew by 0.5 percent in the U.S. In fiscal year 2007, Georgia employment grew faster than U.S. employment, but as the recession became more severe in fiscal year 2008, Georgia employment growth slowed and then turned negative in fiscal year 2009 and fiscal year 2010. In these latter two years, the decline in Georgia employment was significantly worse than the decline in U.S. employment. While the U.S. employment growth turned positive in fiscal year 2011, Georgia's employment growth remained slightly negative.

Figure 1



Source: U.S. Bureau of Labor Statistics

Figure 2 lists the employment level in Georgia by major industry sector over the last five fiscal years as well as the change in employment from fiscal year 2010 to fiscal year 2011, both in levels and in percentage terms. The percentage change in U.S. employment is also presented for comparison purposes.

Figure 2

Non-Farm Payroll Employment in Georgia (000s)

	Fiscal Year					Change FY 2010 to FY 2011		
						Georgia		U.S.
	2007	**2008**	**2009**	**2010**	**2011**	**(000s)**	**%**	**%**
Total Non-farm	4,123	4,145	3,993	3,831	3,824	(7)	-0.2%	0.5%
Private	3,456	3,463	3,300	3,147	3,157	10	0.3%	1.0%
Mining and Logging	12	11	10	9	9	(0)	-0.2%	10.1%
Construction	222	215	185	154	142	(12)	-8.0%	-2.6%
Manufacturing	439	423	384	346	347	1	0.3%	0.8%
Trade Transportation and Utilities	880	886	845	809	810	1	0.1%	0.5%
Information	111	110	107	102	100	(2)	-1.8%	-1.8%
Financial	232	229	218	207	199	(8)	-3.7%	-0.8%
Professional and Business Services	557	566	530	511	528	18	3.5%	2.5%
Education and Health	451	465	473	481	490	10	2.0%	2.1%
Leisure and Hospitality	391	397	386	374	376	2	0.5%	0.9%
Other Services	160	161	159	154	155	1	0.4%	1.5%
Government	667	682	694	684	666	(18)	-2.6%	-1.4%

Source: U.S. Bureau of Labor Statistics
Note: Details may not add

Figure 2 highlights the drop in employment that has occurred in Georgia due to the Great Recession. Total employment peaked at 4.1 million jobs in fiscal year 2008 and fell to 3.8 million jobs in fiscal year 2011. During that period, every major sector except education and health suffered net job losses. The most severe declines were in the construction and manufacturing sectors.

Fiscal year 2011 saw improvement in some sectors of the labor market. Total private employment grew by 10,000 jobs or 0.3 percent. Manufacturing employment grew slightly in fiscal year 2011 and professional and business services growth outstripped U.S. growth. However, employment declines in construction, finance and government sectors were more severe than for the U.S. as a whole. The fiscal year 2011 decline in government employment more than offset the growth in private jobs, resulting in net job losses for the State in fiscal year 2011.

Figure 3 summarizes employment growth at the metropolitan statistical area level. As shown, employment growth varied widely across metropolitan areas. For example, Dalton and Brunswick experienced much more severe contraction in total employment in fiscal year 2009 and fiscal year 2010, well above the rate for the entire state. In contrast, Hinesville and Warner Robins experienced net job growth in both years. In fact, these two metropolitan areas were the only areas to experience net job growth in those years. Atlanta, the largest metropolitan area in terms of employment, generally is close to the overall Georgia rate of employment growth. In fiscal year 2011, seven of the fourteen metropolitan areas experienced net job growth in the year, indicating slow improvement across the state in labor market conditions.

Figure 3

Non-farm Employment Growth
Annual Percent Change

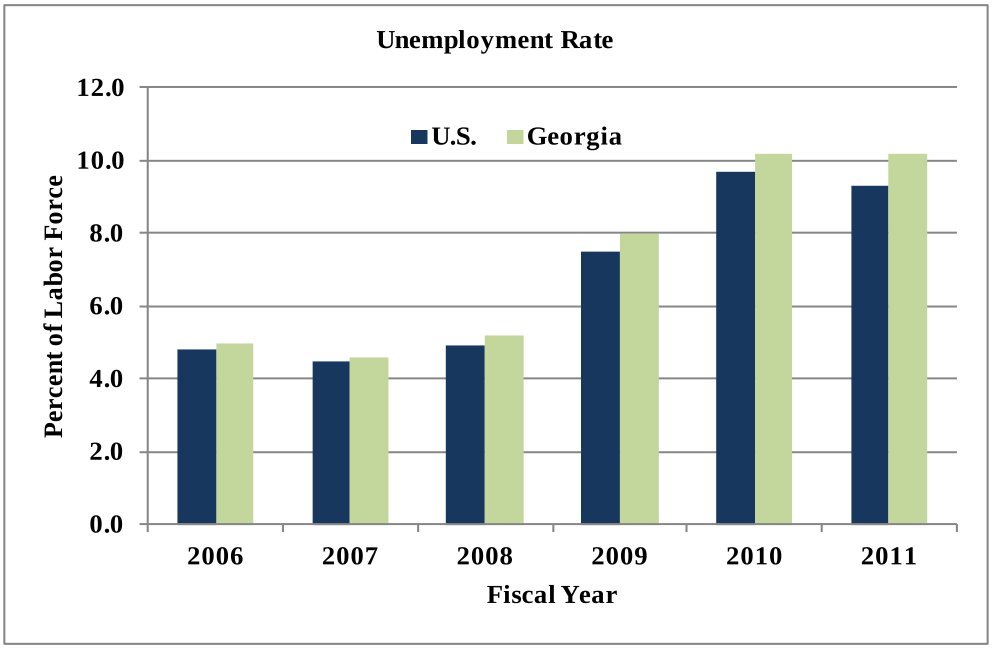
	Fiscal Year				
	2007	**2008**	**2009**	**2010**	**2011**
Georgia	1.8%	0.5%	-3.7%	-4.1%	-0.2%
Metropolitan Area					
Albany	0.0%	-0.1%	-2.2%	-3.5%	0.5%
Athens	2.6%	3.2%	-2.7%	-3.3%	0.8%
Atlanta	2.6%	0.9%	-3.8%	-4.3%	-0.4%
Augusta	0.4%	0.6%	-1.8%	-1.4%	-0.1%
Brunswick	0.4%	2.2%	-4.5%	-5.3%	-1.4%
Columbus	-0.5%	0.0%	-1.9%	-2.1%	0.4%
Dalton	0.3%	-3.1%	-9.5%	-4.9%	0.0%
Gainesville	5.3%	3.7%	-4.8%	-4.3%	1.8%
Hinesville	1.6%	2.7%	4.8%	0.2%	-0.4%
Macon	-0.4%	0.9%	-2.4%	-3.8%	0.1%
Rome	-1.5%	-0.5%	-3.5%	-4.4%	-0.5%
Savannah	4.6%	0.9%	-3.6%	-3.5%	-0.1%
Valdosta	2.0%	0.8%	-2.1%	-5.1%	-0.5%
Warner Robins	6.2%	0.8%	0.1%	1.4%	0.7%

Source: U.S. Bureau of Labor Statistics

Unemployment

High unemployment has accompanied the loss of jobs in the U.S. and in Georgia. Figure 4 illustrates the unemployment rates over the last five fiscal years.

Figure 4



Source: U.S. Bureau of Labor Statistics

Prior to the recession, there was minimal difference in the unemployment rates of the U.S. and of Georgia. As the recession deepened, Georgia's unemployment rate increased more than that of the U.S. Through fiscal year 2011, the U.S. unemployment rate had fallen from its fiscal year 2010 peak, but remained very high. Georgia's unemployment in fiscal year 2011 was virtually unchanged from its fiscal year 2010 unemployment rates at 10.2 percent.

Figure 5 details unemployment rates for Georgia's metropolitan areas. Unemployment in fiscal year 2011 remained very high across Georgia's metropolitan areas. Several metropolitan areas reached peak unemployment rates during fiscal year 2011, including Brunswick and Hinesville. Seven of fourteen metropolitan areas saw unemployment rate decreases in fiscal year 2011 compared to fiscal year 2010, but only Gainesville experienced a decrease of one half percent or more in its unemployment rate in fiscal year 2011.

Figure 5

Unemployment Rate by Metro Area

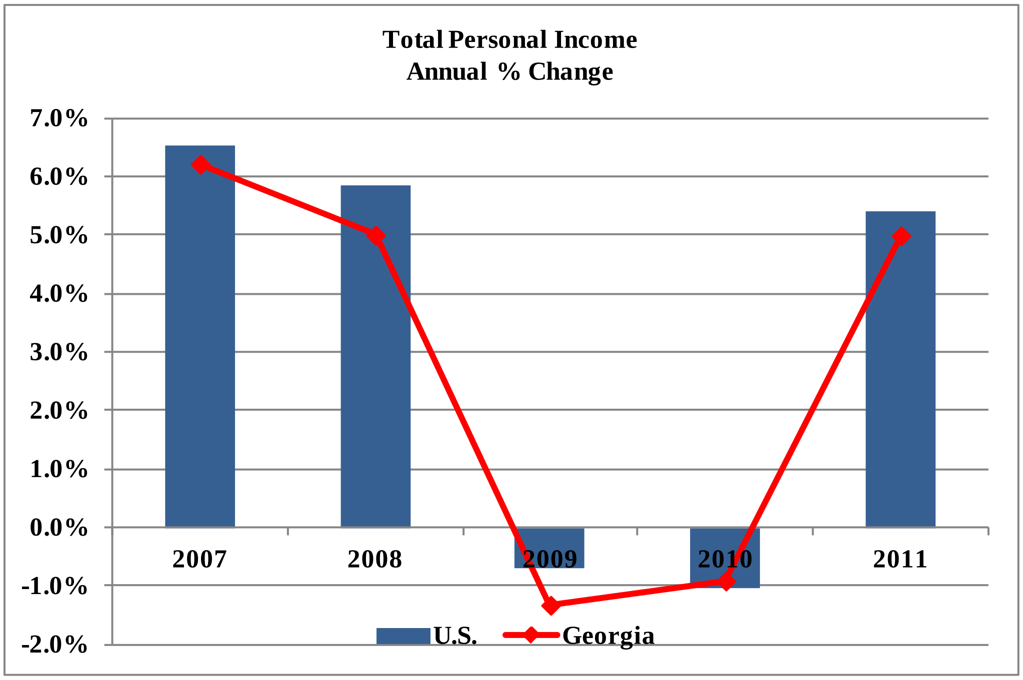
	Fiscal Year (Percent)				
Metropolitan Area	**2007**	**2008**	**2009**	**2010**	**2011**
Albany	5.2	5.6	7.8	10.7	10.6
Athens	3.8	4.2	6.4	7.8	7.6
Atlanta	4.5	5.1	8.1	10.2	10.2
Augusta	5.7	5.7	7.9	9.2	8.9
Brunswick	3.9	4.3	7.3	9.5	10.0
Columbus	5.3	5.5	7.9	9.6	9.4
Dalton	4.5	5.6	10.8	12.3	12.0
Gainesville	3.6	4.3	7.6	9.3	8.8
Hinesville	5.3	5.1	7.0	8.4	8.9
Macon	5.2	5.5	7.9	10.1	10.2
Rome	4.6	5.4	8.6	10.7	10.6
Savannah	3.8	4.5	7.0	8.7	9.1
Valdosta	3.8	4.5	7.1	8.8	8.9
Warner Robins	4.0	4.5	6.3	7.4	7.7
Georgia	4.6	5.2	8.0	10.2	10.2

Source: U.S. Bureau of Labor Statistics

Personal Income

Personal income is the broadest measure of economic conditions available at the state level on a timely basis. Broader measures such as state gross domestic product (GDP) are available only with a substantial lag. Personal income is also an important economic indicator due to its close relationship with state tax revenues. The two largest sources of State revenues, individual income tax and sales and use tax, are closely related to changes in personal income over time. Figure 6 compares the year over year growth rates in total personal income for Georgia and the U.S. over the last five fiscal years.

Figure 6



Source: Bureau of Economic Analysis

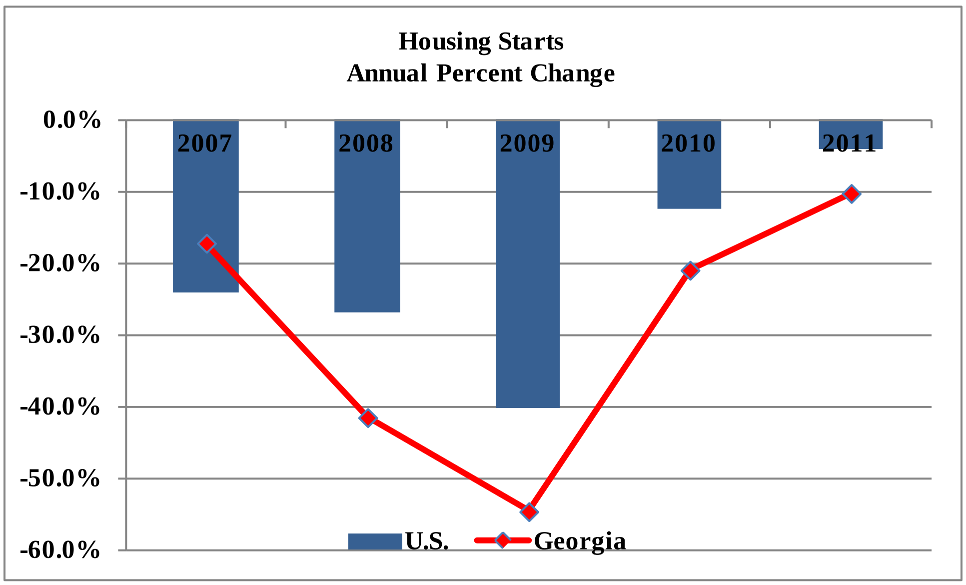
Personal income growth in Georgia has lagged that of the U.S. each year during this time span. In addition, personal income growth fell into negative territory for fiscal year 2009 and fiscal year 2010 for both the U.S. and Georgia. Positive personal income growth resumed in fiscal year 2011 reaching 5.4 percent for the U.S. and 5.0 percent for Georgia.

The wage and salary disbursements component of personal income also grew in fiscal year 2011 at 3.7 percent after declining by 2.2 percent in fiscal year 2010. Dividends, interest and rents fell by 7.7 percent in fiscal year 2010 but grew by 6.4 percent in fiscal year 2011. Both of these components contribute to growth in taxable income and thereby individual income tax revenues; these components also provide spending capability to support growth in sales tax revenues. Personal transfer receipts grew by 11.1 percent in fiscal year 2010 and by 6.2 percent in fiscal year 2011. Personal transfer receipts are made up of benefits from social safety net programs such as Social Security, Medicare and Medicaid, and unemployment insurance. The rapid rate of growth, particularly in fiscal year 2010, reflects the depth of the recession and its impact on employment. Transfer payments, with the exception of unemployment insurance payments, are not subject to Georgia's individual income tax, but do in general, provide additional spending capability that supports sales tax revenue growth. Note that realized capital gains are not included in personal income.

Housing Markets

The housing sector saw dramatic declines in activities and values prior to and during the recession. Housing started to decline in 2007 and problems associated with housing finance, including sub-prime mortgages and collateralized debt obligations, contributed to the freeze-up in financial markets that led to the Great Recession. Figure 7 illustrates the large impacts on residential housing construction. Housing starts were still declining through fiscal year 2011 for both Georgia and the U.S. The decline in residential construction continued throughout the five fiscal years illustrated in Figure 7. In fiscal year 2009, starts declined by 40 percent in the U.S. and over 50 percent in Georgia. The declines moderated in fiscal year 2010 and fiscal year 2011, however, the cumulative decline over this period was 84 percent for Georgia and 72 percent for the U.S.

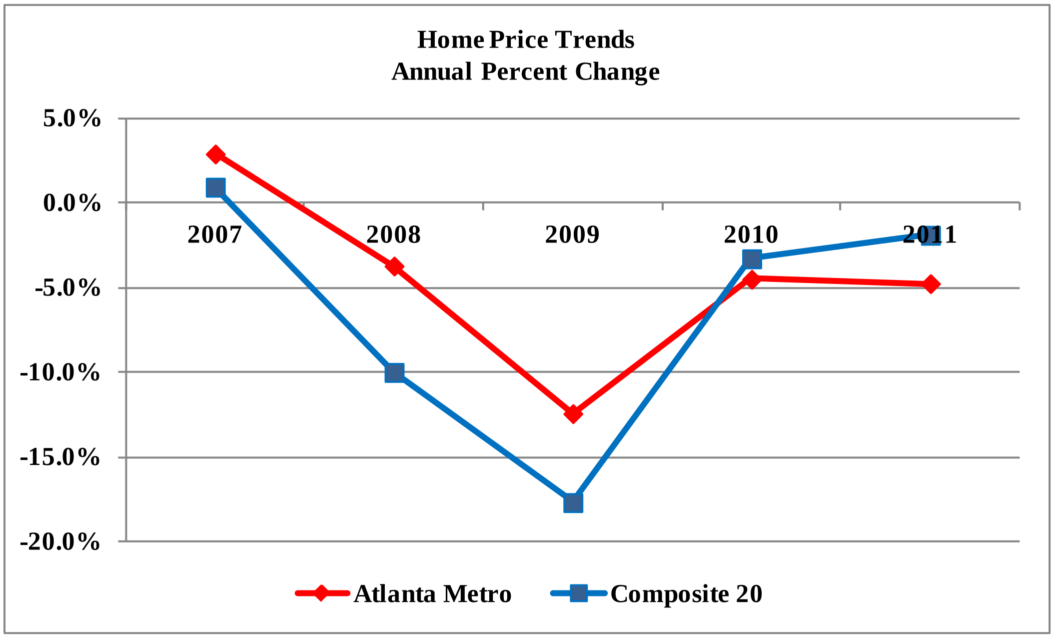
Figure 7



Source: Moody's Analytics and U.S. Census Bureau

The value of housing has also declined significantly during the recession. Figure 8 illustrates the decline based on the Standard and Poor's Case-Shiller Home Price Index for the Atlanta metropolitan area and the composite index for twenty large metropolitan areas across the nation. Home prices increased slightly in fiscal year 2007 but have fallen each year since then. Home prices fell most sharply in fiscal year 2009 when the composite index for 20 metropolitan areas fell by 17.7 percent in fiscal year 2009 and the Atlanta metropolitan area price index decreased by 12.4 percent. Price declines have moderated since then, however, the cumulative decline in prices indicated by the Composite 20 Index is 29 percent and the cumulative decline indicated by the Atlanta metropolitan index is 21 percent.

Figure 8



Source: S&P/Case-Shiller Home Price Indices

Fiscal Year Outlook

Economic conditions in Georgia during fiscal year 2011 showed signs of the national recovery with growth in personal income and its major components as well as employment growth in some industry segments and for some metropolitan areas. However, elements of the Great Recession still linger in the state as unemployment remains near its all-time peak and overall employment growth is still negative.

Looking forward, the economic recovery is expected to continue at a modest pace. Economic expansion had slowed markedly in the first half of 2011 under the weight of high oil and other commodity prices and the impact on global manufacturing and exports of the Japanese tsunami. The most recent data indicate that U.S. real GDP growth picked up in the third quarter of 2011 and likely will be still stronger in the fourth quarter. Oil prices have fallen from their peaks and the impact of the tsunami has faded with U.S. auto sales bouncing back above their level prior to the manufacturing disruption. Corporations remain in good position to invest and hire with strong internal cash positions. The U.S. labor market also continues to improve. Unemployment is falling slowly and private non-farm employment has steadily expanded. Leading indicators of employment growth such as temporary employment are also growing.

While the economic recovery remains intact, it still faces substantial risk. The modest rate of expansion makes the economy vulnerable to outside shocks. Housing remains troubled due to high foreclosure rates and declining prices. The debt crisis in Europe is likely to have a negative impact on U.S. exports as European economies slow and likely fall back into recession. More importantly, potential debt defaults or a disorderly break-up of the monetary union could impair U.S. financial markets and tip the U.S. economy back into recession.

Although more volatile, Georgia's economy generally tracks near the U.S. economy and is thus subject to the same risk factors. The current outlook for Georgia's economy is for a slow recovery during fiscal year 2012 with some acceleration in fiscal year 2013.

ACKNOWLEDGEMENTS

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 and to the Department of Audits and Accounts for their dedicated efforts in assisting us in the preparation of this report.

Respectfully submitted,

Greg S. Griffin
State Accounting Officer

State of Georgia

Organizational Chart
June 30, 2011

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 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
State Personnel Administration
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
CONSTITUTION
WISDOM
JUSTICE
MODERATION
1776

Principal State Officials
June 30, 2011

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*

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

STATE OF GEORGIA

CONSTITUTION

WISDOM JUSTICE MODERATION

1776

ACKNOWLEDGEMENTS

The Georgia Comprehensive Annual Financial Report (CAFR) for the fiscal year ending June 30, 2011 was prepared by:

STATE ACCOUNTING OFFICE

Alan Skelton, Deputy Director, State Accounting Office
Kris Martins, Director, Financial Reporting

STATEWIDE ACCOUNTING AND REPORTING

Bobbie R. Davis	Jennifer Sanders
Zeina Diallo	Troy Senter
Eddy A. Hicks	Melesse Siratu
Sharon Hill	Ellen K. Tate
Regina Jones	Drew Townsend
Christina R. Palmer	Sandra Warr
Michael Rodgers	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 personnnel of the State Accounting Office.

Financial Section

DEPARTMENT OF AUDITS AND ACCOUNTS

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

RUSSELL W. HINTON
STATE AUDITOR
(404) 656-2174

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying 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, 2011, which collectively comprise the State's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the State of Georgia's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of certain organizations. These organizations reflect the following percentages of total assets and revenues or additions of the indicated opinion units:

Opinion Unit	Percent of Opinion Unit's Total Assets	Percent of Opinion Unit's Total Revenues/Additions
Governmental Activities	13%	26%
Business-Type Activities	4%	18%
Aggregate Discretely Presented Component Units	94%	94%
Governmental Fund - General Fund	12%	22%
Governmental Fund - General Obligation Bond Projects Fund	99%	99%
Proprietary Fund/Enterprise Fund -State Employees' Health Benefit Plan	100%	100%
Aggregate Remaining Fund Information	90%	62%

The financial statements of these organizations and component units were audited by other auditors whose reports have been furnished to us, and our opinions, insofar as they relate to the amounts included for those financial statements, are based solely upon the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the Armstrong

Atlantic State University Educational Properties Foundation, Inc., Georgia College & State University Foundation, Inc., Georgia Lottery Corporation, Georgia Southern University Housing Foundation, Inc., Georgia State University Foundation, Inc., Georgia Tech Athletic Association, Georgia Tech Foundation, Inc., Kennesaw State University Foundation, Inc., MCG Health, Inc., MCG Health System, Inc., Medical College of Georgia Foundation, Inc., The Medical College of Georgia Physicians Practice Group Foundation, The University of Georgia Athletic Association, Inc., The University of Georgia Foundation, University System of Georgia Foundation, Inc. and the VSU Auxiliary Services Real Estate Foundation, Inc. were audited in accordance with auditing standards generally accepted in the United States of America but were not audited in accordance *Government Auditing Standards* issued by the Comptroller General of the United States. An audit includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions. Georgia statutes, in addition to audit responsibilities, entrust other responsibilities to the Department of Audits and Accounts. Those responsibilities included 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 has also elected to not provide audit services for the Department of Community Health (DCH) due to a contractual obligation with DCH to conduct certain non-audit services.

In our opinion, based on our audit and the reports of other auditors, the 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, 2011, 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.

The financial statements of the general fund reflect accounts payable in the amount of $911,782,704 which represents the State of Georgia's liability for teachers' salaries earned before June 30, 2011, but not paid until July and August, 2011. State appropriations for the subsequent fiscal year were available for obligation even though the period to which the appropriation applied had not begun. The recognition of this liability at June 30, 2011, however, is not in accordance with generally accepted accounting principles as promulgated by Governmental Accounting Standards Board (GASB) Statement 33 because the subsequent fiscal year had not begun. We believe, however, the omission of this liability would cause the financial statements of the State of Georgia to be misleading.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 30, 2011 on our consideration of the 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The accompanying management's discussion and analysis on pages 7 through 18 and schedule of funding progress (OPEB), budgetary comparison schedule, budget to GAAP reconciliation, and notes to required supplementary information on pages 125 through 131 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State of Georgia's basic financial statements. The introductory section, combining fund statements, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining fund statements have been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, in our opinion, based on our audit and the reports of other auditors, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and the statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Respectfully submitted,

Russell W. Hinton, CPA, CGFM
State Auditor

December 30, 2011


STATE OF GEORGIA
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MANAGEMENT'S DISCUSSION AND ANALYSIS


STATE OF GEORGIA
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INTRODUCTION

Management of the State of Georgia (the State) provides this *Management's Discussion and Analysis* of the State of Georgia's *Comprehensive Annual Financial Report (CAFR)* for readers of the State's financial statements. This narrative overview and analysis of the financial activities of the State is for the fiscal year ended June 30, 2011. 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. During fiscal year 2011, the State implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This Statement introduces new terms that are defined in Note 1, beginning on page 40.

FINANCIAL HIGHLIGHTS

Government-wide

- Total assets of the State exceeded liabilities by $20.2 billion (reported as "net assets"). The State's total net assets increased $366.0 million or 1.8 percent over the prior year. Net assets of governmental activities increased by $297.4 million or 2.0 percent, while the net assets of business-type activities increased by $68.6 million or 1.3 percent. Component units reported an increase in net assets of $290.5 million or 4.7 percent from the prior year.

- During the fiscal year, the State's total revenues for governmental activities of $33.7 billion were $2.6 billion more than total expenses (excluding transfers) of $31.1 billion. Of these expenses, $18.3 billion were covered by program revenues. General revenues, primarily attributable to various taxes, totaled $15.4 billion.

Fund Level

- The governmental funds reported combined ending fund balances of $4.8 billion, a decrease of $281.1 million or 5.5 percent in comparison with the prior year. Of this total fund balance, $94.9 million or 2.0 percent represents nonspendable fund balance, $4.0 billion or 83.7 percent represents restricted fund balance, $9.4 million or 0.2 percent represents committed fund balance, $277.1 million or 5.8 percent represents assigned fund balance and $401.4 million or 8.3 percent represents unassigned fund balance.

- The enterprise funds reported net assets of $5.4 billion at June 30, 2011, an increase of $68.6 million or 1.3 percent compared to the prior year.

- The General Fund ended the fiscal year with a total fund balance of $3.7 billion, of which $401.4 million was classified as unassigned fund balance. Total tax revenues in the General Fund were $620.5 million or 4.2 percent higher than the prior year, as the economy continued to show signs of improving.

Long-term Debt

The State's long-term bonded debt decreased $109.3 million or 1.0 percent during the fiscal year which represents the net difference between new issuances, payments and refunding of outstanding debt. General obligation bonds for the primary government decreased by $63.1 million or 0.7 percent while revenue bonds for the primary government decreased $46.1 million or 2.1 percent. The State issued new bonded debt during the year in the amount of $1.1 billion for the primary government and $684.4 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 Assets and Statement of Activities beginning on page 21 together comprise the *government-wide financial statements.* These statements provide a broad overview of the State's financial activities as a whole with a long-term focus and are prepared 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 and liabilities, including capital assets and long-term debt, are reported at the entity level.

The government-wide statements report the State's *net assets* – the difference between total assets and total liabilities – and how they have changed from the prior year. Over time, increases and decreases in net assets 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 Employees' Health Benefit Plan, 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 beginning on page 24 provide detailed information about individual major funds, not the State as whole. 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 of Georgia, 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 on pages 25 and 27 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 following represents 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 beginning on page 39 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.

Required Supplementary Information
In addition to this Management’s Discussion and Analysis, 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
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 Assets
The State’s total net assets increased $366.0 million or 1.8 percent in fiscal year 2011. In comparison, net assets in the prior year decreased $88.7 million or 0.4 percent. The change in net assets is comprised of the following:

- Invested in Capital Assets - Total investment in capital assets net of related debt increased $854.9 million or 4.8 percent during the current year as the State’s investment in highways and buildings exceeded deprecation and the net additional debt incurred to finance the capital-related projects.

- Restricted Net Assets – Total restricted net assets increased $1.5 billion or 49.3 percent over the prior year.
    - Restricted net assets of governmental activities increased $1.4 billion or 54.8 percent primarily attributable to an increase in state motor fuel restrictions of $391.9 million offset by a decrease in lottery for education restricted funds of $274.7 million. In addition, $1.0 billion of the total increase was due to a reclassification of net assets for restrictions associated with general obligation bonds previously reported as unrestricted net assets.
    - Restricted net assets of business-type activities increased $66.4 million or 15.7 percent, primarily due to increases of $39.1 million or 9.2 percent in the Higher Education Fund related to increased enrollments and $27.3 million or 100 percent at the State Road and Tollway Authority for transportation improvements.

- Unrestricted Net Assets – The remaining balance of ($3.2 billion) is unrestricted net assets, which decreased by $2.0 billion or 165.9 percent over the prior year. Total unrestricted net assets in governmental activities of ($2.1 billion) decreased from the prior year by $1.5 billion or 225.0 percent primarily due to the reclassification of restricted general obligation bond funds discussed above and an increased investment in capital assets of $329.7 million. Total unrestricted net assets in business-type activities of ($1.1 billion) decreased $523.0 million or 95.7 percent primarily due to a corresponding increase in investment in capital assets of $525.2 million.

(Table on next page)

Table 1 - Net Assets

As of June 30, 2011 and 2010 (in thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2011	2010	2011	2010	2011	2010
Current and Other						
Non-captital Assets	$ 8,397,840	$ 9,785,713	$ 2,718,203	$ 2,447,656	$ 11,116,043	$ 12,233,369
Net Capital Assets	21,058,409	20,716,313	9,116,104	8,079,628	30,174,513	28,795,941
Total Assets	29,456,249	30,502,026	11,834,307	10,527,284	41,290,556	41,029,310
Non-current Liabilities	11,201,294	11,452,978	5,467,003	4,197,653	16,668,297	15,650,631
Current Liabilities	3,449,994	4,541,486	994,946	1,025,882	4,444,940	5,567,368
Total Liabilities	14,651,288	15,994,464	6,461,949	5,223,535	21,113,237	21,217,999
Net Assets						
Invested in Capital Assets,						
Net of Related Debt	12,880,313	12,550,617	5,952,035	5,426,787	18,832,348	17,977,404
Restricted	4,031,347	2,605,116	489,736	423,325	4,521,083	3,028,441
Unrestricted	(2,106,699)	(648,171)	(1,069,413)	(546,363)	(3,176,112)	(1,194,534)
Total Net Assets	$ 14,804,961	$ 14,507,562	$ 5,372,358	$ 5,303,749	$ 20,177,319	$ 19,811,311

The largest component of the State's net assets, $18.8 billion or 93.3 percent, reflects investments in capital assets (e.g., land, buildings, machinery and equipment, infrastructure) less any related debt to finance those assets. The State uses capital assets to provide services to citizens; consequently, these resources are not available for future spending. Resources needed to repay capital-related debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the State's net assets represents restricted net assets. Restricted net assets of $4.5 billion comprise 22.4 percent of total net assets and are subject to constitutional, legal, or external restrictions on how they may be used. The remaining balance of ($3.2 billion) is unrestricted net assets.

Changes in Net Assets

The State received 34.7 percent of its revenues from state taxes and 52.6 percent of its revenues from grants and contributions, primarily from federal sources. In the prior year, state taxes accounted for 32.7 percent and grants and contributions were 56.2 percent of total revenues. Charges for goods and services such as licenses, permits, liquor sales, park and court fees, combined with other miscellaneous collections, comprised 13.3 percent of total revenues in fiscal year 2011, compared to 11.1 percent in fiscal year 2010. Expenses for the State during fiscal year 2011 were $43.9 billion. As a result of the excess revenues over expenses, the total net assets of the State increased $404.7 million, 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 assets for fiscal year 2011.

Table 2 - Changes in Net Assets

For the Years Ended June 30, 2011 and 2010 (in thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government		Total Percentage Change
	2011	2010	2011	2010	2011	2010	2010 to 2011
Revenues:							
Program Revenues:							
Charges for Services	$ 2,770,216	$ 2,408,738	$ 2,683,080	$ 2,442,184	$ 5,453,296	$ 4,850,922	12.4%
Operating Grants/Contributions	14,029,675	15,656,694	7,557,366	7,837,041	21,587,041	23,493,735	-8.1%
Capital Grants/Contributions	1,473,052	1,599,721	106,217	41,634	1,579,269	1,641,355	-3.8%
General Revenues:							
Taxes	15,261,481	14,641,029	-	-	15,261,481	14,641,029	4.2%
Unrestricted Investment Income	(3,066)	993	-	-	(3,066)	993	-408.8%
Unclaimed Property	98,098	85,277	-	-	98,098	85,277	15.0%
Other	30,285	44,183	-	-	30,285	44,183	-31.5%
Total Revenues	33,659,741	34,436,635	10,346,663	10,320,859	44,006,404	44,757,494	-1.7%
Expenses:							
General Government	1,222,954	1,467,147	-	-	1,222,954	1,467,147	-16.6%
Education	10,002,351	10,731,693	-	-	10,002,351	10,731,693	-6.8%
Health and Welfare	14,745,268	14,210,928	-	-	14,745,268	14,210,928	3.8%
Transportation	1,517,213	1,752,933	-	-	1,517,213	1,752,933	-13.4%
Public Safety	1,974,964	1,834,315	-	-	1,974,964	1,834,315	7.7%
Economic Development and Assistance	843,912	808,742	-	-	843,912	808,742	4.3%
Culture and Recreation	233,608	287,860	-	-	233,608	287,860	-18.8%
Conservation	59,159	62,059	-	-	59,159	62,059	-4.7%
Interest and Other Charges on Long-Term Debt	462,602	446,520	-	-	462,602	446,520	3.6%
Higher Education Fund	-	-	7,622,542	7,067,724	7,622,542	7,067,724	7.9%
State Employees' Health Benefit Plan	-	-	2,224,280	2,298,354	2,224,280	2,298,354	-3.2%
Unemployment Compensation	-	-	2,954,208	4,011,802	2,954,208	4,011,802	-26.4%
State Road and Tollway Authortiy	-	-	26,613	26,174	26,613	26,174	1.7%
Total Expenses	31,062,031	31,602,197	12,827,643	13,404,054	43,889,674	45,006,251	-2.5%
Increase (Decrease) in Net Assets BeforeTransfers And Special Items	2,597,710	2,834,438	(2,480,980)	(3,083,195)	116,730	(248,757)	
Transfers and Special Items	(2,244,118)	(2,279,791)	2,532,118	2,269,701	288,000	(10,090)	
Change in Net Assets	353,592	554,647	51,138	(813,494)	404,730	(258,847)	
Net Assets, July 1 - Restated	14,451,369	13,952,915	5,321,220	6,117,243	19,772,589	20,070,158	
Net Assets, June 30	$ 14,804,961	$ 14,507,562	$ 5,372,358	$ 5,303,749	$ 20,177,319	$ 19,811,311	1.8%

Governmental Activities

The State's total governmental revenues from all sources decreased $776.9 million or 2.3 percent. Operating grants and contributions decreased $1.6 billion or 10.4 percent. This decrease was partially offset by increases in tax revenues of $620.5 million or 4.2 percent and charges for services of $361.5 million or 15.0 percent.

The following table shows to what extent the State's governmental activities relied on state taxes and other general revenues to cover all their costs. For fiscal year 2011, taxes and other general revenues covered 41.2 percent of expenses. The remaining $18.3 billion or 58.8 percent of the total expenses were covered by charges for services and grants.

Table 3 – Net Program Revenue
For the Years Ended June 30, 2011 and 2010 (in thousands)

	Program Expenses 2011	Less Program Revenues 2011	Net Program (Expense) / Revenue 2011	Net Program (Expense) / Revenue 2010	Program Revenues as a Percentage of Program Expenses 2011	Program Revenues as a Percentage of Program Expenses 2010
Functions/Programs						
Primary Government						
Governmental Activities:						
General Government	$ 1,222,954	$ 2,244,664	$ 1,021,710	$ 651,611	183.5%	144.4%
Education	10,002,351	1,571,591	(8,430,760)	(7,524,451)	15.7%	29.9%
Health and Welfare	14,745,268	11,338,109	(3,407,159)	(2,952,656)	76.9%	79.2%
Transportation	1,517,213	1,632,228	115,015	(156,728)	107.6%	91.1%
Public Safety	1,974,964	457,068	(1,517,896)	(1,366,875)	23.1%	25.5%
Economic Development and Assistance	843,912	774,348	(69,564)	(59,409)	91.8%	92.7%
Culture and Recreation	233,608	212,775	(20,833)	(40,188)	91.1%	86.0%
Conservation	59,159	42,160	(16,999)	(41,828)	71.3%	32.6%
Interest and Other Charges on Long-Term Debt	462,602	-	(462,602)	(446,520)	0.0%	0.0%
Total Governmental Activities	$ 31,062,031	$ 18,272,943	$(12,789,088)	$(11,937,044)	58.8%	62.2%

Business-Type Activities
Net assets of business-type activities increased by $68.6 million or 1.3 percent during the fiscal year. Operating revenues from the State's business-type activities increased $25.8 million or 0.3 percent from the prior year. This was primarily due to an increase in revenue in the Higher Education Fund offset by a decrease in revenue from the Unemployment Compensation Fund. Total expenses for the State's business-type activities decreased $576.4 million or 4.3 percent. This decrease is attributable to lower expenses in the Unemployment Compensation Fund and the State Employees' Health Benefit Plan, offset by increased expenses in the Higher Education Fund.

In fiscal year 2011, business-type activities expenses were funded 80.7 percent on $10.3 billion from program revenues compared to 77.0 percent on $10.3 billion in the prior year. The remaining expenses were covered from revenues transferred in from governmental activities to the Higher Education Fund.

FINANCIAL ANALYSIS OF THE STATE'S GOVERNMENTAL FUNDS

Fund Balances
At June 30, 2011, the State's governmental funds reported combined ending fund balance of $4.8 billion. Of this amount, $94.9 million or 2.0 percent is nonspendable, either due to its form or legal constraints, and $4.0 billion or 83.7 percent is restricted for specific programs by constitutional provisions, external constraints, or contractual obligations. Net assets that are restricted by the *Constitution* principally include 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, $9.4 million or 0.2 percent 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 $277.1 million or 5.8 percent of total fund balance has been assigned to specific purposes, as expressed by the intent of State management. The remaining $401.4 million or 8.3 percent 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 $3.7 billion. The net change in fund balance during the fiscal year was $18.6 million or 0.5 percent compared to $667.0 million or 22.0 percent net change in the prior year. The General Fund ended the year with an unrestricted, unassigned fund balance of $401.4 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 $33.4 billion in the fiscal year, a decrease of $735.1 million or 2.2 percent from the prior year. Factors contributing to this change included the following:

- Taxes increased $620.5 million or 4.2 percent from the prior year.
- Federal Revenues decreased by $1.8 billion or 10.7 percent from the prior year.
- Fines and forfeitures increased $158.3 million or 52.8 percent from the prior year.
- Hospital Providers payments, which did not exist prior to fiscal year 2011, were $215.1 million.

Expenditures

Expenditures of the General Fund totaled $30.3 billion in the fiscal year, a decrease of $622.0 million or 2.0 percent from the prior year. Factors contributing to this change included the following:

- Education expenditures decreased $737.3 million or 6.9 percent from the prior year.
- Health and Welfare expenditures increased $509.8 million or 3.6 percent from the prior year.
- Transportation expenditures decreased $426.4 million or 20.1 percent from the prior year.
- Net other financing sources and uses increased $751.1 million or 28.6 percent compared to the prior year, which was primarily due to higher transfers out to nongeneral funds.

Special Items

Special items of $288.0 million have been reported for the transfer of funds from the Georgia Environmental Finance Authority (component unit) (GEFA) to the General Fund. GEFA made this voluntary transfer of funds from the proceeds of the sale of loans receivable originated by GEFA and purchased by the Georgia Environmental Loan Acquisition Corporation (component unit) (GELAC). GELAC was established in fiscal year 2011 pursuant to the Georgia Nonprofit Corporation Code for the purpose of purchasing such loans and for other purposes.

Capital Project Fund - General Obligation Bond Projects Fund

Fund balance in the General Obligation Bond Projects Fund decreased by $296.3 million or 22.4 percent from the prior year. This was primarily the result of capital expenditures and transfers out of $1.1 billion exceeding general revenues, debt issuances, and transfers in of $805.9 million.

The State issues general obligation (GO) bonds to provide funds for the acquisition and construction of major capital facilities and equipment. In prior fiscal years, the State reported the activity for capital projects funded with GO bond proceeds differently for projects managed by state agencies and those managed by the Georgia State Financing and Investment Commission (GSFIC). Beginning with fiscal year 2011, all capital projects activity funded with GO bond proceeds are presented in a single "General Obligation Bond Projects Fund." The beginning net assets for both the General Fund and the General Obligation Bond Projects Fund have been restated by $4.5 million to reflect the reclassification of this activity.

BUDGETARY HIGHLIGHTS

Fiscal Performance

Fiscal conditions improved for the State during fiscal year 2011 as net revenue collections were $16.6 billion or 8.8 percent greater than fiscal year 2010. Net Revenue Collections deposited with the Office of the State Treasurer during fiscal year 2011 were 1.6 percent less than the initial revenue estimate of $16.8 billion. More specifically:

- Tax revenue of $15.5 billion exceeded the original revenue estimate by $64.3 million.
- Interest revenue of $224.1 million exceeded the original revenue estimate by $62.9 million.

- Regulatory Fees and Sales of $865.0 million was less than the original revenue estimate by $388.7 million. The difference is primarily due to the treatment of $288.0 million of transfers reported as a special item in this report and as Regulatory Fees and Sales in the original revenue estimate.

While Net Revenue Collections were less than initial estimates, other state fund revenue of $2.1 billion exceeded the original revenue estimate by $739.0 million. As a result, overall state funds available for appropriation exceeded the initial revenue estimate by $477.5 million.

Revenue Shortfall Reserve
As the State continues to address the effects of one of the worst economic downturns in recent history, the ending balance in the Revenue Shortfall Reserve (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 percent of net revenue collections) the State's RSR balance declined to $268.2 million (1.8 percent of net revenue collections) in fiscal year 2010. At June 30, 2011, the State's RSR had grown to $494.0 million (3 percent of net revenue collections).

By statute, one percent of fiscal year 2011net revenue collections ($165.6 million) is available from the RSR for the mid-year K-12 education appropriation adjustment in the Amended fiscal year 2012 budget. However, this amount had not been appropriated as of the date of this report. In addition, 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 percent on the net revenue collections of the preceding fiscal year.

FINANCIAL ANALYSIS OF THE STATE'S PROPRIETARY FUNDS

Higher Education
The net assets of the Higher Education Fund increased $190.6 million or 3.3 percent compared to the prior year. Operating revenues of the Fund increased $330.8 million or 8.9 percent due primarily to increases in net student tuition and fees revenue of $193.4 million, federal grants and contracts of $68.1 million, local, private and other grants and contracts of $23.1 million, and sales and services of $58.3 million. These increases, all attributable to increased enrollments, were offset by a reduction of $12.6 million in other revenues. In addition, tuition and fees revenue increased due to an increase in tuition rates approved by the Board of Regents of the University System of Georgia to address funding gaps due to the loss of Federal Stabilization Funds reported as nonoperating revenue and transfers in from the General Fund. Nonoperating revenue (net of expenses) decreased $192.9 million or 17.1 percent, primarily attributable to elimination of Federal Stabilization funds of $280 million, offset by increases in Federal nonoperating grants of about $117 million that are primarily attributable to enrollment levels. In addition, the Higher Education Fund received $2.1 billion in transfers in from the General Fund, an increase of $156.8 million or 8.0 percent compared to the prior year.

Fiscal year 2011 operating expenses increased $520.9 million or 7.6 percent compared to the prior year. The increase is due primarily to increases in personal services, services and supplies, scholarships and fellowships and depreciation of $270.7 million, $133.6 million, $87.6 million, and $29.0 million, respectively.

Unemployment Compensation
The State's average unemployment rate for the fiscal year 2011 remained relatively unchanged from the prior year. Unemployment tax revenue paid into the fund increased by $136.9 million or 22.9 percent as a result of continuing high unemployment and higher employer contribution rates. However, revenues from grants and contributions decreased $488.6 million or 15.0 percent due to lower Federal revenues. Benefit payments decreased $1.1 billion or 26.4 percent this year compared to last fiscal year, due in part to a small improvement in the economy and fewer claims paid. Benefit payments again exceeded employer taxes and other revenues resulting in a decrease of net assets of $192.7 million or 188.7 percent.

In order to pay benefits, the Unemployment Compensation Fund continued to borrow funds from the Federal government under provisions of the Social Security Act. The outstanding balance of the advances at June 30, 2011 was $728 million, which increased $312 million or 75.0 percent from the prior year. The Unemployment Compensation Fund will incur approximately 4.0 percent annual interest on the amount borrowed. Repayment of interest cannot be paid with unemployment insurance taxes or administrative grant funding, thus other state funds must be used. The State made an interest payment of $21.0 million on September 30, 2011 and currently anticipates budgeting $33.0 million in the fiscal year 2013 budget for interest payments that will be due on September 30, 2012.

State Health Benefit Plan

The net assets of the State Employees' Health Benefit Plan (SHBP) increased $ 50.7 million or 21.7 percent from the prior year which reduced the negative unrestricted fund balance to ($183.4) million. Contributions to the fund increased $277.5 million or 13.9 percent offset by the elimination of general fund transfers of $33.3 million. At the same time, benefit payments decreased.73.2 million or 3.4 percent in comparison to the prior year.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The State's capital assets increased a net $1.4 billion or 4.5 percent during the year. The change consisted of net increases in infrastructure of $1.3 billion; land of $224.2 million; buildings and improvements of $460.0 million; with a corresponding decrease of construction in progress decreased $1.0 billion. Infrastructure assets are items that are normally immovable and of value only to the State, such as roads, bridges, streets and sidewalks, drainage systems, lighting systems, and similar items.

Additional information on the State's capital assets can be found in Note 7 on page 73 of the notes to the financial statements of this report.

Table 4 - Capital Assets, Net of Accumulated Depreciation

As of June 30, 2011 and 2010 (in thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2011	2010	2011	2010	2011	2010
Buildings/Building Improvements	$ 2,009,157	$ 2,053,808	$ 5,582,807	$ 5,078,125	$ 7,591,964	$ 7,131,933
Improvements Not Buildings	40,114	32,630	218,400	196,115	258,514	228,745
Infrastructure	11,220,992	9,954,769	176,311	174,829	11,397,302	10,129,598
Intangibles Other than Software	91,554	71,610	-	-	91,554	71,610
Land	3,084,525	2,927,663	362,875	295,519	3,447,400	3,223,182
Library Collections	-	-	179,038	176,639	179,038	176,639
Machinery and Equipment	204,001	216,090	2,298,748	1,873,970	2,502,749	2,090,060
Software	78,719	79,660	7,531	8,832	86,251	88,492
Works of Art and Collections	1,334	1,334	47,167	45,187	48,501	46,521
Construction in Progress	4,328,013	5,378,749	243,227	230,412	4,571,239	5,609,161
Total	**$ 21,058,409**	**$ 20,716,313**	**$ 9,116,104**	**$ 8,079,628**	**$ 30,174,513**	**$ 28,795,941**

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 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. At June 30, 2011, the State was $432.7 million below the annual debt service limit established by the *Constitution*.

Table 5 - Net Outstanding Bond Debt
As of June 30, 2011 and 2010 (in thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2011	2010	2011	2010	2011	2010
General Obligation Bonds	$ 8,774,586	$ 8,837,728	$ -	$ -	$ 8,774,586	$ 8,837,728
GARVEE Revenue Bonds	1,371,885	1,503,605	-	-	1,371,885	1,503,605
Revenue Bonds	476,684	505,884	328,597	213,814	805,281	719,698
	$ 10,623,155	$ 10,847,217	$ 328,597	$ 213,814	$ 10,951,752	$ 11,061,031

At the end of the fiscal year, the State had total bonded debt outstanding of $10.6 billion. Of this amount $9.0 billion (not including deferred charges, premiums, and discounts) or 87 percent is secured by the full faith and credit of the government (general obligation bonds and guaranteed revenue bonds), and $1.3 billion or 13 percent 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 decreased $63.1 million or 0.7 percent and $46.1 million or 2.1 percent respectively. During the fiscal year, the State issued $653.9 million of general obligation bonds and $478.6 million of revenue bonds. Of the general obligation bonds issued, $258.7 million was issued for higher education facilities, $237.9 million was used for K-12 school facilities, $34.0 million for water and sewer loans to local governments, and $123.3 million for various state agency facilities. Of the revenue bonds issued, $344.4 million was used to refund existing guaranteed revenue bonds, $40 million was used for improvements to the Georgia 400 tollroad and secured by toll revenues, and $94.2 million was used for capital facility projects on various college campuses throughout the State.

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. Note 8, beginning on page 78, contains additional information about the State's outstanding debt.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The adopted fiscal year 2012 budget requires revenue growth of 3.6 percent and growth of 3.9 percent in total General Fund revenue over actual fiscal year 2011 General Fund collections. In order to mitigate the effects of recent economic conditions, the fiscal year 2012 budget was balanced through targeted agency budget reductions averaging about 7 percent (excluding K-12 education, Medicaid and State Hospitals), increased revenue collections, and efficiency gains in agency operations. In spite of the economic challenges that the State has faced in recent years, there is planned growth in the fiscal year 2012 budget.

Georgia's tax revenues have performed quite well into fiscal year 2012 with growth well above the rates required to meet the fiscal year 2012 budget. Tax revenues grew 7.1 percent in fiscal year 2011 and growth through the first five months of fiscal year 2012 has equaled 6.7 percent. Growth has been solid in terms of key components most reflective of current economic conditions. Year to date withholding revenue and sales tax growth rates for fiscal year 2012 equal 4.1 percent and 5.3 percent, respectively.

Personal income has grown over the prior quarter for seven consecutive quarters in both Georgia and the U.S. after declining during the recession, but declined by 0.03 percent in the 3rd quarter of calendar year 2011. Wage and salary income grew in the 3rd quarter of calendar year 2011 after falling slightly in the prior quarter. Wage and salary income had increased for the five prior quarters. Georgia has yet to see consistent growth in non-farm employment. However, private employment is growing on a year over year basis but this growth has been outweighed by declines in government employment. In addition, construction and finance sector jobs are still declining on a year over year basis, while employment in other sectors is expanding, principally professional and business services, and education and health. The drag on employment growth from government and construction is expected to gradually ebb and employment growth is expected to pick up.

As the State begins the process of updating revenue estimates for the Amended fiscal year 2012 budget and the fiscal year 2013 budget, U.S. and Georgia economic growth is expected to continue at slow rates through the end of calendar year 2011 and is expected to gather some momentum in calendar year 2012, but remain moderate. The Governor's revised revenue estimate and budget recommendations for the Amended fiscal year 2012 and fiscal year 2013 budgets will be finalized and released in early January.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the State of Georgia's finances for all of Georgia'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

Statement of Net Assets
June 30, 2011
(dollars in thousands)

	Primary Government			
	Governmental Activities	Business-Type Activities	Total	Component Units
Assets				
Cash and Cash Equivalents	$ 2,311,531	$ 1,291,172	$ 3,602,703	$ 988,111
Investments	2,496,113	307,650	2,803,763	2,956,631
Receivables (Net)	2,979,326	946,136	3,925,462	4,972,256
Due from Primary Government	-	-	-	3,815
Due from Component Units	51,850	132,538	184,388	-
Internal Balances	228,387	(228,387)	-	-
Inventories	53,454	35,670	89,124	22,602
Prepaid Items	57,846	69,458	127,304	23,251
Other Assets	133,541	15,674	149,215	263,739
Deferred Capital Outflow	-	-	-	18,642
Restricted Assets				
Cash and Cash Equivalents	59,367	69,136	128,503	378,702
Investments	26,425	79,156	105,581	446,729
Receivables (Net)	-	-	-	729,992
Capital Assets				
Nondepreciable	7,505,426	646,713	8,152,139	566,430
Depreciable (Net of Accumulated Depreciation)	13,552,983	8,469,391	22,022,374	1,668,367
Total Assets	29,456,249	11,834,307	41,290,556	13,039,267
Liabilities				
Accounts Payable and Accrued Liabilities	1,615,674	239,951	1,855,625	372,140
Due to Primary Government	-	-	-	184,388
Due to Component Units	715	3,100	3,815	-
Benefits Payable	706,836	240,698	947,534	-
Accrued Interest Payable	147,228	709	147,937	7,488
Contracts Payable	126,379	13,002	139,381	10,847
Funds Held for Others	134,469	54,153	188,622	3,888
Unearned Revenue	119,285	402,885	522,170	992,381
Claims and Judgments Payable	471,192	-	471,192	9,266
Other Liabilities	128,216	40,448	168,664	159,960
Noncurrent Liabilities:				
Due within one year	1,056,271	195,336	1,251,607	188,501
Due in more than one year	10,145,023	5,271,667	15,416,690	4,689,994
Total Liabilities	14,651,288	6,461,949	21,113,237	6,618,853
Net Assets				
Invested in Capital Assets, Net of Related Debt	12,880,313	5,952,035	18,832,348	1,156,775
Restricted for:				
Bond Covenants/Debt Service	-	-	-	33,884
Capital Projects	928,295	30,158	958,453	82,605
Guaranteed Revenue Debt Common Reserve Fund	54,003	-	54,003	-
Loan and Grant Programs	-	-	-	1,199,578
Lottery for Education	608,607	-	608,607	-
Motor Fuel Tax Funds	1,820,845	-	1,820,845	-
Permanent Trusts:				
Nonexpendable	14	149,255	149,269	1,072,454
Expendable	-	282,980	282,980	938,918
Other Purposes	619,583	27,343	646,926	4,513
Unrestricted	(2,106,699)	(1,069,413)	(3,176,112)	1,931,687
Total Net Assets	$ 14,804,961	$ 5,372,358	$ 20,177,319	$ 6,420,414

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

State of Georgia

Statement of Activities
For the Fiscal Year Ended June 30, 2011
(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	$ 1,222,954	$ 1,887,736	$ 343,860	$ 13,068
Education	10,002,351	5,410	1,566,181	-
Health and Welfare	14,745,268	473,934	10,860,183	3,992
Transportation	1,517,213	26,496	168,542	1,437,190
Public Safety	1,974,964	160,161	291,730	5,177
Economic Development and Assistance	843,912	75,723	698,625	-
Culture and Recreation	233,608	131,186	81,583	6
Conservation	59,159	9,570	18,971	13,619
Interest and Other Charges on Long-Term Debt	462,602	-	-	-
Total Governmental Activities	31,062,031	2,770,216	14,029,675	1,473,052
Business-Type Activities:				
Higher Education Fund	7,622,542	2,647,604	2,524,350	95,837
State Employees' Health Benefit Plan	2,224,280	-	2,274,976	-
Unemployment Compensation Fund	2,954,208	-	2,758,001	-
Nonmajor Enterprise	26,613	35,476	39	10,380
Total Business-Type Activities	12,827,643	2,683,080	7,557,366	106,217
Total Primary Government	$ 43,889,674	$ 5,453,296	$ 21,587,041	$ 1,579,269
Component Units				
Georgia Environmental Finance Authority	$ 171,177	$ 60,170	$ 135,843	$ 93,694
Georgia Housing and Finance Authority	275,161	16,734	265,142	-
Georgia Lottery Corporation	3,347,419	3,340,224	176	-
Georgia Tech Foundation, Incorporated	95,502	12,615	229,822	-
Nonmajor Component Units	2,270,380	1,297,205	1,078,819	67,352
Total Component Units	$ 6,159,639	$ 4,726,948	$ 1,709,802	$ 161,046

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
Special Items
Transfers
Total General Revenues, Contributions to Permanent Endowments and Transfers
Change in Net Assets
Net Assets - Beginning - Restated (Note 3)
Net Assets - Ending

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

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			
Governmental Activities	Business-Type Activities	Total	Component Units
$ 1,021,710		$ 1,021,710	
(8,430,760)		(8,430,760)	
(3,407,159)		(3,407,159)	
115,015		115,015	
(1,517,896)		(1,517,896)	
(69,564)		(69,564)	
(20,833)		(20,833)	
(16,999)		(16,999)	
(462,602)		(462,602)	
(12,789,088)		(12,789,088)	
	$ (2,354,751)	(2,354,751)	
	50,696	50,696	
	(196,207)	(196,207)	
	19,282	19,282	
	(2,480,980)	(2,480,980)	
(12,789,088)	(2,480,980)	(15,270,068)	
			$ 118,530
			6,715
			(7,019)
			146,935
			172,996
			438,157
7,797,739	-	7,797,739	-
5,133,404	-	5,133,404	-
2,330,338	-	2,330,338	25,785
(3,066)	-	(3,066)	-
98,098	-	98,098	-
30,285	-	30,285	-
-	-	-	64,081
-	-	-	36,445
288,000	-	288,000	(288,000)
(2,532,118)	2,532,118	-	-
13,142,680	2,532,118	15,674,798	(161,689)
353,592	51,138	404,730	276,468
14,451,369	5,321,220	19,772,589	6,143,946
$ 14,804,961	$ 5,372,358	$ 20,177,319	$ 6,420,414

Balance Sheet
Governmental Funds
June 30, 2011
(dollars in thousands)

	General Fund	General Obligation Bond Projects Fund	Nonmajor Funds	Total
Assets				
Cash and Cash Equivalents	$ 1,998,607	$ 247,867	$ 3,774	$ 2,250,248
Investments	1,603,070	785,057	748	2,388,875
Receivables, Net	2,847,903	79,236	4,375	2,931,514
Due from Other Funds	549	-	4,022	4,571
Due from Component Units	51,787	-	-	51,787
Inventories	38,821	-	-	38,821
Restricted Assets				
Cash and Cash Equivalents	14,434	-	44,934	59,368
Investments	8,808	-	17,617	26,425
Other Assets	162,334	1,283	54	163,671
Total Assets	$ 6,726,313	$ 1,113,443	$ 75,524	$ 7,915,280
Liabilities and Fund Balances				
Liabilities:				
Accounts Payable and Other Accruals	$ 1,510,819	$ 39,740	$ 2,224	$ 1,552,783
Due to Other Funds	301,106	514	143	301,763
Due to Component Units	715	-	-	715
Benefits Payable	706,836	-	-	706,836
Contracts Payable	97,919	28,460	-	126,379
Undistributed Local Government Sales Tax	19,000	-	-	19,000
Funds Held for Others	132,460	-	-	132,460
Deferred Revenue	117,777	1,306	-	119,083
Other Liabilities	125,650	16,401	65	142,116
Total Liabilities	3,012,282	86,421	2,432	3,101,135
Fund Balances:				
Nonspendable	94,810	-	68	94,878
Restricted	2,951,728	1,017,053	62,550	4,031,331
Unrestricted				
Committed	9,403	-	-	9,403
Assigned	256,676	9,969	10,474	277,119
Unassigned	401,414	-	-	401,414
Total Fund Balances	3,714,031	1,027,022	73,092	4,814,145
Total Liabilities and Fund Balances	$ 6,726,313	$ 1,113,443	$ 75,524	$ 7,915,280

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

Reconciliation of Fund Balances
To the Statement of Net Assets
June 30, 2011
(dollars in thousands)

Total Fund Balances - Governmental Funds (from previous page)		$ 4,814,145
Amounts reported for governmental activities in the Statement of Net Assets 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	$ 3,063,042	
Buildings and Building Improvements	3,099,528	
Improvements Other Than Buildings	75,700	
Equipment	788,294	
Infrastructure	23,298,452	
Construction in Progress	4,328,012	
Works of Art	94	
Intangibles	91,554	
Software	165,236	
Accumulated Depreciation	(14,135,331)	20,774,581
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 Assets.		28,636
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 Assets.		528,768
Certain long-term liabilities and related accrued interest are not due and payable in the current period and, therefore, are not reported in the funds.		
General Obligation Bonds	(8,551,145)	
Premiums	(389,860)	
Deferred Amount on Refunding	182,232	
Accrued Interest Payable	(136,900)	
Revenue Bonds	(1,731,970)	
Premiums	(132,412)	
Accrued Interest Payable	(10,325)	
Capital Leases	(223,429)	
Compensated Absences	(315,071)	
Long-Term Notes	(19,600)	
Arbitrage Rebate	(12,689)	(11,341,169)
Total Net Assets - Governmental Activities		$ 14,804,961

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, 2011
(dollars in thousands)

	General Fund	General Obligation Bond Projects Fund	Nonmajor Funds	Total
Revenues:				
Taxes	$ 15,261,481	$ -	$ -	$ 15,261,481
Licenses and Permits	581,994	-	-	581,994
Intergovernmental - Federal	14,698,354	11,354	-	14,709,708
Intergovernmental - Other	580,769	71,475	-	652,244
Sales and Services	464,026	7,081	129	471,236
Fines and Forfeits	458,341	-	-	458,341
Interest and Other Investment Income	(2,494)	15,233	191	12,930
Unclaimed Property	98,098	-	-	98,098
Lottery Proceeds	846,106	-	-	846,106
Nursing Home Provider Fees	128,771	-	-	128,771
Hospital Provider Payments	215,080	-	-	215,080
Other	93,787	-	540	94,327
Total Revenues	33,424,313	105,143	860	33,530,316
Expenditures:				
Current:				
General Government	872,765	893	-	873,658
Education	9,981,903	-	-	9,981,903
Health and Welfare	14,721,528	-	-	14,721,528
Transportation	1,695,992	-	3,720	1,699,712
Public Safety	1,874,257	-	-	1,874,257
Economic Development and Assistance	835,861	-	480	836,341
Culture and Recreation	275,974	-	-	275,974
Conservation	51,573	-	-	51,573
Capital Outlay	-	882,731	-	882,731
Debt Service				
Principal	-	-	845,300	845,300
Interest	33	-	493,812	493,845
Other Debt Service Expenditures	-	20,827	37,096	57,923
Intergovernmental	-	153,190	-	153,190
Total Expenditures	30,309,886	1,057,641	1,380,408	32,747,935
Excess (Deficiency) of Revenues Over (Under) Expenditures	3,114,427	(952,498)	(1,379,548)	782,381
Other Financing Sources (Uses):				
Debt Issuance - General Obligation Bonds	-	653,925	-	653,925
Debt Issuance - Refunding Bonds	-	-	344,420	344,420
Debt Issuance - General Obligation Bonds - Premium	-	32,170	-	32,170
Debt Issuance - Refunding Bonds - Premium	-	-	55,821	55,821
Payment to Refunded Bond Escrow Agent	-	-	(398,339)	(398,339)
Capital Leases	25,851	-	-	25,851
Transfers In	78,456	14,682	1,374,305	1,467,443
Transfers Out	(3,483,724)	(49,062)	-	(3,532,786)
Net Other Financing Sources (Uses)	(3,379,417)	651,715	1,376,207	(1,351,495)
Special Item	288,000	-	-	288,000
Net Change in Fund Balances	23,010	(300,783)	(3,341)	(281,114)
Fund Balances, July 1 (Restated - Note 3)	3,691,021	1,327,805	76,433	5,095,259
Fund Balances, June 30	$ 3,714,031	$ 1,027,022	$ 73,092	$ 4,814,145

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, 2011

(dollars in thousands)

Net Change in Fund Balances - Governmental Funds (from previous page)		$ (281,114)
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.	$ 1,393,249	
Depreciation expense	(995,763)	397,486
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.		18,373
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 Assets.		(998,345)
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 Assets, the lease obligation is reported as a liability.		(26,344)
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 Assets. Payments were made on the following long-term liabilities:		
General Obligation Bonds	733,415	
Revenue Bonds	146,730	
Notes	-	
Capital Leases	28,733	908,878
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.		(32,811)
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	8,829	
Accrued Interest on Bonds Payable	23,953	
Arbitrage Rebate	8,681	
Amortization of Deferred Amount on Refunding	(15,372)	
Amortization of Bond Premiums	429,534	
Allocation of Deferred Bond Issuance Costs	(88,156)	367,469
Change in Net Assets - Governmental Activities		$ 353,592

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

Statement of Net Assets
Proprietary Funds
June 30, 2011
(dollars in thousands)

	Business-Type Activities - Enterprise Funds					Governmental Activities - Internal Service Funds
	Higher Education Fund	State Employees' Health Benefit Plan	Unemployment Compensation Fund	Nonmajor Funds	Total	
Assets						
Current Assets:						
Cash and Cash Equivalents	$ 957,050	$ 29,163	$ 295,260	$ 9,699	$ 1,291,172	$ 61,283
Investments	161,877	20,643	-	3,590	186,110	31,120
Accounts Receivable (Net)	386,133	40,754	180,106	664	607,657	45,073
Due From Other Funds	-	-	-	-	-	391,868
Due From Component Units	132,538	-	-	-	132,538	65
Notes Receivable	424	-	-	3,600	4,024	-
Other Assets	104,939	-	-	264	105,203	16,435
Restricted Assets						
Cash and Cash Equivalents	-	-	-	57,094	57,094	-
Investments	-	-	-	10,655	10,655	-
Noncurrent Assets:						
Investments	121,364	150	-	26	121,540	76,119
Notes Receivable	45,145	-	-	289,310	334,455	-
Other Noncurrent Assets	-	-	-	15,599	15,599	-
Restricted Assets						
Cash and Cash Equivalents	9,530	-	-	2,512	12,042	-
Investments	68,424	-	-	77	68,501	-
Non-Depreciable Capital Assets	628,565	-	-	18,148	646,713	22,723
Depreciable Capital Assets, net	8,468,729	-	-	662	8,469,391	261,103
Total Assets	11,084,718	90,710	475,366	411,900	12,062,694	905,789
Liabilities						
Current Liabilities:						
Accounts Payable and Other Accruals	209,724	1,769	3,122	3,165	217,780	29,954
Due to Other Funds	90,579	12,657	-	4,022	107,258	62
Due to Component Units	3,100	-	-	-	3,100	-
Benefits Payable	23,289	200,136	17,273	-	240,698	-
Grants Payable	9,516	-	-	-	9,516	-
Unearned Revenue	310,604	59,197	21,747	-	391,548	202
Claims and Judgments Payable	-	-	-	-	-	471,192
Compensated Absences Payable - Current	126,307	130	-	87	126,524	3,497
Revenue Bonds Payable	-	-	-	9,420	9,420	-
Other Current Liabilities	165,678	-	-	1,053	166,731	2,047
Current Liabilities Payable from Restricted Assets	-	-	-	3,602	3,602	-
Noncurrent Liabilities:						
Compensated Absences Payable	89,441	182	-	87	89,710	3,853
Capital Leases/Installment Purchases Payable	3,111,385	-	-	-	3,111,385	-
Revenue Bonds Payable	-	-	-	319,177	319,177	-
Other Postemployment Benefit Obligation	1,017,399	-	-	-	1,017,399	-
Other Noncurrent Liabilities	14,701	-	728,000	-	742,701	-
Total Liabilities	5,171,723	274,071	770,142	340,613	6,556,549	510,807
Net Assets						
Invested in Capital Assets, Net of Related Debt	5,933,225	-	-	18,810	5,952,035	283,827
Restricted for:						
Capital Projects	30,158	-	-	-	30,158	-
Other	-	-	-	27,343	27,343	-
Permanent Trusts:						
Nonexpendable	149,255	-	-	-	149,255	-
Expendable	282,980	-	-	-	282,980	-
Unrestricted	(482,623)	(183,361)	(294,776)	25,134	(935,626)	111,155
Total Net Assets	$ 5,912,995	$ (183,361)	$ (294,776)	$ 71,287	5,506,145	$ 394,982
Adjustment to reflect the consolidation of Internal Service Fund activities related to Enterprise Funds.					(133,787)	
Net Assets of Business-Type Activities					$ 5,372,358	

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

Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
For the Fiscal Year Ended June 30, 2011
(dollars in thousands)

	Business-Type Activities - Enterprise Funds					Governmental Activities - Internal Service Funds
	Higher Education Fund	State Employees' Health Benefit Plan	Unemployment Compensation Fund	Nonmajor Funds	Total	
Operating Revenues:						
Operating Grants and Contributions/Premiums	$ 1,380,586	$ 2,274,781	$ 2,758,001	$ -	$ 6,413,368	$ 183,462
Rents and Royalties	5,816	-	-	52	5,868	50,507
Sales and Services	920,418	-	-	35,424	955,842	310,274
Tuition and Fees	2,183,562	-	-	-	2,183,562	-
Less: Scholarship Allowances	(551,479)	-	-	-	(551,479)	-
Other	89,286	-	-	-	89,286	1,376
Total Operating Revenues	4,028,189	2,274,781	2,758,001	35,476	9,096,447	545,619
Operating Expenses:						
Personal Services	4,536,489	4,849	-	2,758	4,544,096	57,456
Services and Supplies	1,869,263	110,949	-	5,633	1,985,845	316,217
Scholarships and Fellowships	587,620	-	-	-	587,620	-
Benefits	-	2,108,482	2,954,208	-	5,062,690	-
Claims and Judgments	-	-	-	-	-	152,367
Depreciation	420,061	-	-	739	420,800	21,403
Amortization	-	-	-	1,370	1,370	-
Total Operating Expenses	7,413,433	2,224,280	2,954,208	10,500	12,602,421	547,443
Operating Income (Loss)	(3,385,244)	50,501	(196,207)	24,976	(3,505,974)	(1,824)
Nonoperating Revenues (Expenses):						
Grants and Contributions	1,110,251	-	-	-	1,110,251	-
Interest and Other Investment Income	33,513	195	-	39	33,747	3,233
Interest Expense	(162,735)	-	-	(16,113)	(178,848)	-
Other	(48,095)	-	-	-	(48,095)	9,700
Total Nonoperating Revenues (Expenses)	932,934	195	-	(16,074)	917,055	12,933
Income (Loss) Before Contributions, Special Items and Transfers	(2,452,310)	50,696	(196,207)	8,902	(2,588,919)	11,109
Capital Contributions	514,665	-	-	10,380	525,045	7,807
Transfers:						
Transfers In	2,122,900	-	-	-	2,122,900	6,137
Transfers Out	(4,250)	-	(4,287)	-	(8,537)	(57,216)
Net Transfers	2,118,650	-	(4,287)	-	2,114,363	(51,079)
Change in Net Assets	181,005	50,696	(200,494)	19,282	50,489	(32,163)
Net Assets, July 1 (Restated - Note 3)	5,731,990	(234,057)	(94,282)	52,005		427,145
Net Assets, June 30	$ 5,912,995	$ (183,361)	$ (294,776)	$ 71,287		$ 394,982
Adjustment to reflect the consolidation of Internal Service Fund activities related to Enterprise Funds.					649	
					$ 51,138	

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, 2011
(dollars in thousands)

	Business-Type Activities - Enterprise Funds					Governmental Activities - Internal Service Funds
	Higher Education Fund	State Employees' Health Benefit Plan	Unemployment Compensation Fund	Nonmajor Enterprise Fund	Total	
Cash Flows from Operating Activities:						
Cash Received from Customers	$ 942,692	$ -	$ -	$ 20,563	$ 963,255	$ 370,147
Cash Received from Grants and Required Contributions/Premiums	1,367,641	2,253,212	2,743,784	14,953	6,379,590	133,382
Cash Received from Tuition and Fees	1,634,239	-	-	-	1,634,239	-
Cash Paid to Vendors	(2,727,568)	(113,638)	-	(5,226)	(2,846,432)	(319,971)
Cash Paid to Employees	(3,299,330)	(4,815)	-	(2,795)	(3,306,940)	(57,614)
Cash Paid for Benefits	-	(2,123,800)	(2,958,596)	-	(5,082,396)	-
Cash Paid for Claims and Judgments	-	-	-	-	-	(125,921)
Cash Paid for Scholarships, Fellowships and Loans	(597,382)	-	-	-	(597,382)	-
Other Operating Items (Net)	83,335	-	-	-	83,335	101
Net Cash Provided by (Used in) Operating Activities	(2,596,373)	10,959	(214,812)	27,495	(2,772,731)	124
Cash Flows from Noncapital Financing Activities:						
Payment to Lessee on Direct Financing Lease	-	-	-	(94,174)	(94,174)	-
Proceeds from Debt	-	-	312,000	136,339	448,339	-
Bond Issuance Costs	-	-	-	(2,487)	(2,487)	-
Interest Paid on Debt	-	-	-	(14,953)	(14,953)	-
Transfers from Other Funds	2,122,900	-	-	1,077	2,123,977	5,805
Transfers to Other Funds	(4,251)	-	(4,288)	-	(8,539)	(56,884)
Other Noncapital Items (Net)	1,029,234	-	-	-	1,029,234	10,328
Net Cash Provided by (Used in) Noncapital Financing Activities	3,147,883	-	307,712	25,802	3,481,397	(40,751)
Cash Flows from Capital and Related Financing Activities:						
Capital Contributions	-	-	-	10,380	10,380	-
Capital grants and gifts received	103,824	-	-	-	103,824	-
Proceeds from Sale of Capital Assets	4,428	-	-	-	4,428	481
Acquisition and Construction of Capital Assets	(479,033)	-	-	(12,741)	(491,774)	(3,910)
Principal Paid on Capital Debt	(70,016)	-	-	(19,830)	(89,846)	-
Interest Paid on Capital Debt	(147,435)	-	-	(1,303)	(148,738)	-
Net Cash Used in Capital and Related Financing Activities	(588,232)	-	-	(23,494)	(611,726)	(3,429)
Cash Flows from Investing Activities:						
Sale (Purchase) of Investments (Net)	9,985	(6,538)	-	21,526	24,973	34,023
Interest and Dividends Received	15,240	196	-	39	15,475	5,418
Net Cash Provided by (Used in) Investing Activities	25,225	(6,342)	-	21,565	40,448	39,441
Net Increase (Decrease) in Cash and Cash Equivalents	(11,497)	4,617	92,900	51,368	137,388	(4,615)
Cash and Cash Equivalents, July 1	978,077	24,546	202,360	17,937	1,222,920	65,898
Cash and Cash Equivalents, June 30	$ 966,580	$ 29,163	$ 295,260	$ 69,305	$ 1,360,308	$ 61,283

(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, 2011
(dollars in thousands)

	Business-Type Activities - Enterprise Funds					Governmental Activities - Internal Service Funds
	Higher Education Fund	State Employees' Health Benefit Plan	Unemployment Compensation Fund	Nonmajor Enterprise Fund	Total	
Reconciliation of operating income to net cash provided (used) by operating activities						
Operating Income (Loss)	$ (3,385,244)	$ 50,501	$ (196,207)	$ 24,976	$ (3,505,974)	$ (1,824)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities:						
Depreciation/Amortization Expense	420,061	-	-	2,109	422,170	21,402
Other	-	-	-	(36)	(36)	-
Changes in Assets and Liabilities:						
Decrease (Increase) in Accounts Receivable	(26,851)	(1,295)	(14,076)	(81)	(42,303)	(2,455)
Decrease in Due From Other Funds	-	-	-	-	-	(32,618)
Decrease in Due from Component Units	-	-	-	-	-	90
Decrease (Increase) in Other Assets	5,991	-	-	407	6,396	(2,997)
Increase in Notes Receivable	1,077	-	-	-	1,077	-
Increase (Decrease) in Accounts Payable and Other Accruals	33,433	(2,684)	(1,046)	-	29,704	(812)
Increase (Decrease) in Due to Other Funds	-	(9,889)	-	-	(9,889)	(7,176)
Increase (Decrease) in Benefits Payable	-	(15,318)	(4,388)	-	(19,706)	-
Increase in Unearned Revenue	5,648	(10,385)	905	166	(3,666)	65
Decrease in Claims and Judgments Payable	-	-	-	-	-	26,447
Increase (Decrease) in Compensated Absences Payable	6,322	29	-	(37)	6,314	(134)
Increase in Other Postemployment Benefit Obligation	317,461	-	-	-	317,461	-
Increase (Decrease) in Other Liabilities	25,728	-	-	(9)	25,720	136
Increase in Current Liabilities Payable from Restricted Assets	1	-	-	-	1	-
Net Cash Provided by (Used) in Operating Activities	$ (2,596,373)	$ 10,959	$ (214,812)	$ 27,495	$ (2,772,731)	$ 124
Noncash Investing, Capital, and Financing Activities:						
Gift of Capital Assets Reducing Proceeds of Capital Grants and Gifts	$ 205,176	$ -	$ -	$ -	$ 205,176	$ -
Gift Reducing Proceeds of Gifts & Grants Recv'd from other than Capital Purp.	(98)	-	-	-	(98)	-
Gifts other than Capital Assets Reducing Proceeds of Grants and Gifts for Other than Capital Assets	7,508	-	-	-	7,508	-
Donation of Capital Assets	-	-	-	-	-	7,326
Change in Receivable from Grantor Agency affecting proceeds of Capital debt	(38)	-	-	-	(38)	-
Change in Accrued Interest Payable Affecting Interest Paid	13,392	-	-	-	13,392	-
Fixed Assets Acquired by Incurring Capital Lease Obligations	551,359	-	-	-	551,359	-
Change in Fair Value of Investments Recognized as a Component of Interest Income	18,820	-	-	-	18,820	(2,182)
Special Item - Equipment-Capital Asset Transfer	1,065	-	-	-	1,065	-
Reduction in Capital Lease Obligation	326	-	-	-	326	-
Other	2,544	-	-	-	2,544	-
Total Noncash Investing, Capital and Financing Activites	$ 800,054	$ -	$ -	$ -	$ 800,054	$ 5,144

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

Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2011
(dollars in thousands)

	Pension and Other Employee Benefits Trust	Investment Trust	Private Purpose Trust	Agency	Total
Assets					
Cash and Cash Equivalents	$ 411,715	$ 3,280,824	$ 6,621	$ 122,985	$ 3,822,145
Receivables					
Interest and Dividends	217,660	36	-	-	217,696
Due from Brokers for Securities Sold	36,302	-	-	-	36,302
Other	171,340	-	11	664	172,015
Due from Other Funds	14,008	-	-	-	14,008
Investments, at Fair Value					
Certificates of Deposit	-	-	-	2,769	2,769
Pooled Investments	14,442,601	1,838,743	5,089	15,745	16,302,178
Mutual Funds	1,436,276	-	-	704	1,436,980
Repurchase Agreements	1,561,593	-	-	-	1,561,593
Municipal, U. S. and Foreign Government Obligations	9,799,522	-	-	46,641	9,846,163
Corporate Bonds/Notes/Debentures	4,958,262	-	-	4,896	4,963,158
Stocks	37,952,599	-	-	-	37,952,599
Asset-Backed Securities	23,532	-	-	-	23,532
Mortgage Investments	62,673	-	-	-	62,673
Real Estate Investment Trusts	25,858	-	-	-	25,858
Capital Assets					
Land	2,071	-	-	-	2,071
Buildings	7,695	-	826	-	8,521
Software	29,325	-	-	-	29,325
Machinery and Equipment	4,842	-	103	-	4,945
Accumulated Depreciation	(33,525)	-	(374)	-	(33,899)
Other Assets	784	-	-	41,117	41,901
Total Assets	71,125,133	5,119,603	12,276	235,521	76,492,533
Liabilities					
Accounts Payable and Other Accruals	35,221	-	1	270	35,492
Due to Other Funds	1,364	-	-	-	1,364
Due to Brokers for Securities Purchased	129,654	-	-	-	129,654
Salaries/Withholdings Payable	-	-	-	20	20
Benefits Payable	51,126	-	-	-	51,126
Funds Held for Others	-	-	-	235,086	235,086
Notes Payable	26	-	-	-	26
Unearned Revenue	9,556	-	-	92	9,648
Compensated Absences Payable	56	-	200	-	256
Other Liabilities	-	-	681	53	734
Total Liabilities	227,003	-	882	235,521	463,406
Net Assets					
Held in Trust for:					
Pension Benefits	69,905,331	-	-	-	69,905,331
Other Postemployment Benefits	808,016	-	-	-	808,016
Other Employee Benefits	184,783	-	-	-	184,783
Pool Participants	-	5,119,603	-	-	5,119,603
Other Purposes	-	-	11,394	-	11,394
Total Net Assets	$ 70,898,130	$ 5,119,603	$ 11,394	$ -	$ 76,029,127

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

Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Fiscal Year Ended June 30, 2011
(dollars in thousands)

	Pension and Other Employee Benefits Trust	Investment Trust	Private Purpose Trust	Total
Additions:				
Contributions/Assessments				
Employer	$ 1,973,410	$ -	$ -	$ 1,973,410
Plan Members/Participants	862,764	-	104,580	967,344
Other Contributions				
Fines and Bond Forfeitures	20,033	-	-	20,033
Insurance Company Premium Taxes	25,966	-	-	25,966
Insurance Premiums	7,284	-	-	7,284
Other Fees	4,998	-	-	4,998
Interest and Other Investment Income				
Dividends and Interest	1,613,252	13,388	136	1,626,776
Net Appreciation (Depreciation) in				
Investments Reported at Fair Value	11,024,592	(1,740)	-	11,022,852
Less: Investment Expense	(41,531)	(1,551)	-	(43,082)
Pool Participant Deposits	-	7,176,864	-	7,176,864
Other				
Transfers from Other Funds	2,059	-	-	2,059
Miscellaneous	14,797	-	-	14,797
Total Additions	15,507,624	7,186,961	104,716	22,799,301
Deductions:				
General and Administrative Expenses	73,849	-	2,743	76,592
Benefits	5,167,494	-	135,160	5,302,654
Pool Participant Withdrawals	-	7,058,316	-	7,058,316
Refunds	88,297	-	-	88,297
Total Deductions	5,329,640	7,058,316	137,903	12,525,859
Change in Net Assets Held in Trust for:				
Pension and Other Employee Benefits	10,177,984			10,177,984
Pool Participants		128,645		128,645
Other Purposes			(33,187)	(33,187)
Net Assets, July 1	60,720,146	4,990,958	44,581	65,755,685
Net Assets, June 30	$ 70,898,130	$ 5,119,603	$ 11,394	$ 76,029,127

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

Statement of Net Assets
Component Units
June 30, 2011
(dollars in thousands)

	Georgia Environmental Finance Authority	Georgia Housing and Finance Authority	Georgia Lottery Corporation	Georgia Tech Foundation, Incorporated	Nonmajor Component Units	Total
Assets						
Current Assets:						
Cash and Cash Equivalents	$ 293,971	$ 49,094	$ 4,541	$ 4,365	$ 636,140	$ 988,111
Investments	135,484	18,606	-	-	185,354	339,444
Receivables						
Accounts (Net)	22,183	-	179,835	33,395	291,975	527,388
Taxes	-	-	-	-	464	464
Interest and Dividends	10,540	698	-	-	2,455	13,693
Notes and Loans (Net)	-	-	-	1,021	261,513	262,534
Due from Primary Government	-	-	-	-	3,815	3,815
Due from Component Units	-	-	-	15	894	909
Intergovernmental Receivables	21,039	-	-	-	14,787	35,826
Other Current Assets	3,964	24,136	4,655	-	107,582	140,337
Noncurrent Assets:						
Investments	988	109,279	-	1,322,464	1,184,456	2,617,187
Receivables (Net)						
Notes and Loans	1,485,270	585,798	-	-	2,757	2,073,825
Other	-	-	-	200,962	1,857,564	2,058,526
Due from Component Units	-	-	-	-	102,321	102,321
Restricted Assets						
Cash and Cash Equivalents	-	156,952	6,220	-	215,530	378,702
Investments	-	121,539	287,888	-	37,302	446,729
Receivables (Net)						
Notes and Loans	-	720,858	-	-	-	720,858
Interest and Dividends	-	9,065	-	-	-	9,065
Other	-	-	-	-	69	69
Deferred Charges	-	14,162	-	-	-	14,162
Non-depreciable capital assets	-	800	-	3,395	562,235	566,430
Depreciable capital assets, net	55	2,778	4,359	33,771	1,627,404	1,668,367
Deferred Capital Outflow	-	-	-	-	18,642	18,642
Other Noncurrent Assets	-	-	-	27,447	127,646	155,093
Total Assets	1,973,494	1,813,765	487,498	1,626,835	7,240,905	13,142,497

(continued)

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

Statement of Net Assets
Component Units
June 30, 2011
(dollars in thousands)

	Georgia Environmental Finance Authority	Georgia Housing and Finance Authority	Georgia Lottery Corporation	Georgia Tech Foundation, Incorporated	Nonmajor Component Units	Total
Liabilities						
Current Liabilities:						
Accounts Payable and Other Accruals	23,570	33,659	136,701	7,336	170,273	371,539
Due to Primary Government	-	2	51,759	-	132,627	184,388
Due to Component Units	-	-	-	545	364	909
Funds Held for Others	-	-	-	-	3,888	3,888
Unearned Revenue	44,907	2,126	-	1,960	130,864	179,857
Notes and Loans Payable	-	-	-	17,071	19,253	36,324
Revenue/Mortgage Bonds Payable	3,505	34,400	-	7,320	60,667	105,892
Other Current Liabilities	146	60,803	12,071	2,456	67,817	143,293
Current Liabilities Payable from Restricted Assets:						
Accrued Interest Payable	-	-	-	-	3,418	3,418
Revenue Bonds Payable	-	-	-	-	9,210	9,210
Other	-	-	6,205	-	9,313	15,518
Noncurrent Liabilities:						
Unearned Revenue	-	590,858	-	37,853	183,813	812,524
Notes and Loans Payable	-	-	-	8,000	396,552	404,552
Revenue/Mortgage Bonds Payable	221,892	909,962	-	238,106	2,431,187	3,801,147
Grand Prizes Payable	-	-	259,464	-	-	259,464
Due to Component Units	-	-	-	102,321	-	102,321
Derivative Instrument Payable	-	-	-	22,721	47,677	70,398
Other Noncurrent Liabilities	417	-	3,694	10,195	203,135	217,441
Total Liabilities	294,437	1,631,810	469,894	455,884	3,870,058	6,722,083
Net Assets						
Invested in Capital Assets, Net of Related I	48	3,578	4,359	1,355	1,147,435	1,156,775
Restricted for:						
Bond Covenants/Debt Service	-	-	-	-	33,884	33,884
Capital Projects	-	-	-	8,520	74,085	82,605
Permanent Trusts						
Expendable	-	-	-	586,267	352,651	938,918
Nonexpendable	-	-	-	477,363	595,091	1,072,454
Loan and Grant Programs	1,199,578	-	-	-	-	1,199,578
Other Purposes	-	-	-	-	4,513	4,513
Unrestricted	479,431	178,377	13,245	97,446	1,163,188	1,931,687
Total Net Assets	$ 1,679,057	$ 181,955	$ 17,604	$ 1,170,951	$ 3,370,847	$ 6,420,414

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

STATE OF GEORGIA

CONSTITUTION

WISDOM JUSTICE MODERATION

1776

Statement of Activities
Component Units
For the Fiscal Year Ended June 30, 2011
(dollars in thousands)

	Georgia Environmental Finance Authority	Georgia Housing and Finance Authority	Georgia Lottery Corporation	Georgia Tech Foundation, Incorporated	Nonmajor Component Units	Total
Expenses	$ 171,177	$ 275,161	$ 3,347,419	$ 95,502	$ 2,270,380	$ 6,159,639
Program Revenues:						
Sales and Charges for Services	60,170	16,734	3,340,224	12,615	1,297,205	4,726,948
Operating Grants and Contributions	135,843	265,142	176	229,822	1,078,819	1,709,802
Capital Grants and Contributions	93,694	-	-	-	67,352	161,046
Total Program Revenues	289,707	281,876	3,340,400	242,437	2,443,376	6,597,796
Net Revenue	118,530	6,715	(7,019)	146,935	172,996	438,157
General Revenues:						
Taxes	-	-	-	-	25,785	25,785
Payments from the State of Georgia	-	-	-	-	64,081	64,081
Contributions to Permanent Endowments	-	-	-	23,964	12,481	36,445
Total General Revenues	-	-	-	23,964	102,347	126,311
Special Item	(288,000)	-	-	-	-	(288,000)
Change in Net Assets	(169,470)	6,715	(7,019)	170,899	275,343	276,468
Net Assets, July 1 - Restated (Note 3)	1,848,527	175,240	24,623	1,000,052	3,095,504	6,143,946
Net Assets, June 30	$ 1,679,057	$ 181,955	$ 17,604	$ 1,170,951	$ 3,370,847	$ 6,420,414

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


STATE OF GEORGIA
CONSTITUTION
WISDOM
JUSTICE
MODERATION
1776

Index

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

The financial statements of the State of Georgia (State) have been prepared in conformity with GAAP as prescribed by the Governmental Accounting Standards Board (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 State's significant accounting policies are described below.

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, 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 an organization is fiscally dependent upon the State, its resources are held for the direct benefit of the State or can be accessed by the State, or the relationship is such that it would be misleading to exclude it.

Blended Component Units

Blended component units provide services entirely or almost entirely to the primary government. 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 has only one component unit that is blended into a major fund, the Higher Education Fund, an enterprise fund. The description for this component unit follows:

Georgia Military College (College) was created as a public authority, a body corporate and politic, and is an instrumentality of the State and a public corporation. The institution is dedicated to providing a high-quality military education to the youth of the State. The Board of Trustees (Board) 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 of Milledgeville, as required by statute. The government, control, and management of the college are vested in the Board. The College receives any designated funds appropriated by the General Assembly through the State Board of Regents.

The State's other 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
Georgia Economic Development Foundation, Inc.
Georgia Natural Resources Foundation
Georgia Tourism Foundation
State Road and Tollway Authority

Enterprise Funds
Georgia Higher Education Facilities Authority
State Road and Tollway Authority

Internal Service Funds
Georgia Aviation Authority
Georgia Building Authority
Georgia Correctional Industries Administration
Georgia Technology Authority

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

Georgia Environmental Finance Authority (Authority) is a body corporate and politic. The Authority provides assistance to local governments in constructing, extending, rehabilitating, repairing, replacing and renewing environmental facilities by providing financial and technical assistance. The Authority is governed by a board of directors consisting of three officials designated by statute and eight members appointed by the Governor.

Georgia Housing and Finance Authority (Authority) is a body corporate and politic. The Authority is responsible for facilitating housing and housing finance and financing for health facilities and health care services throughout the State. The powers of the Authority 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 United States 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.

Georgia Lottery Corporation (Corporation) is a public body, corporate and politic. The Corporation 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. The Corporation 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 the Corporation.

Georgia Tech Foundation, Incorporated is a nonprofit organization established to promote, in various ways, the cause of higher education in the State of Georgia, 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 State's nonmajor discretely presented component units, as described in the Nonmajor Component Units portion of the Supplementary Information – Combining and Individual Fund Statements category of the Financial Section, are as follows:

Authorities and Similar Organizations

Geo. L. Smith II Georgia World Congress Center Authority
Georgia Agricultural Exposition Authority
Georgia Agrirama Development Authority
Georgia Development Authority
Georgia Foundation for Public Education
Georgia Higher Education Assistance Corporation
Georgia Highway Authority
Georgia International and Maritime Trade Center Authority
Georgia Medical Center Authority
Georgia Music Hall of Fame Authority
Georgia Ports Authority
Georgia Public Telecommunications Commission
Georgia Rail Passenger Authority
Georgia Regional Transportation Authority
Georgia Seed Development Commission
Georgia Sports Hall of Fame Authority
Georgia Student Finance Authority
Jekyll Island State Park Authority
Lake Lanier Islands Development Authority
North Georgia Mountains Authority
Oconee River Greenway Authority
OneGeorgia Authority
Regional Educational Service Agencies
Sapelo Island Heritage Authority
Southwest Georgia Railroad Excursion Authority
Stone Mountain Memorial Association
Superior Court Clerks' Cooperative Authority

Higher Education Foundations and Similar Organizations

Armstrong Atlantic State University Educational Properties Foundation, Incorporated
Georgia College & State University Foundation
Georgia Southern University Housing Foundation, Incorporated
Georgia State University Foundation, Incorporated
Georgia State University Research Foundation, Incorporated
Georgia Tech Athletic Association
Georgia Tech Facilities, Incorporated
Georgia Tech Research Corporation
Kennesaw State University Foundation, Incorporated
Medical College of Georgia Foundation, Incorporated
Medical College of Georgia Heath, Incorporated
Medical College of Georgia Health System, Incorporated
Medical College of Georgia Physicians Practice Group Foundation
University of Georgia Athletic Association, Incorporated
University of Georgia Foundation
University of Georgia Research Foundation, Incorporated
University System of Georgia Foundation, Incorporated
Valdosta State University Auxiliary Services Real Estate Foundation, Incorporated

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 and the Teachers Retirement System of Georgia. Fiduciary component units are detailed in the Fiduciary Funds portion of the Supplementary Information – Combining and Individual Fund Statements category of the Financial Section.

The State's significant component units issue separate audited financial statements. The financial statements for fiduciary component units and authorities and similar organizations can be obtained from their respective administrative offices or from the Georgia Department of Audits and Accounts. The financial statements for the higher education foundations and similar organizations can be obtained from their respective administrative offices or from the Board of Regents of the University System of Georgia.

C. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

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

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, and all Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989, except those that conflict with a GASB pronouncement. 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.

Generally accepted accounting principles require 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. The Higher Education Fund (major enterprise fund) reports summer revenues and expenses in the year in which the predominant activity takes place.

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 Employees' Health Benefit Plan* - a self-insured program of health benefits for the employees of units of government of the State of Georgia, units of county government and local education agencies located within the State of Georgia.

- *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.

- *Debt Service Funds* - account for the payment of principal and interest on general long-term debt. The primary government debt service fund is the General Obligation Debt Sinking Fund. The Debt Sinking Fund is a legally mandated fund responsible for fulfilling annual debt service requirements on all general obligation debt.

- *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. The State Road and Tollway Authority's Proprietary Funds and the Georgia Higher Education Facilities Authority 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 Employees' Retirement System, for the Teachers Retirement System, 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 Recovery Fund, and 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, Liabilities, and Net Assets/Fund Balances

1. 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.

2. 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 of Georgia. 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 the Official Code of Georgia Annotated (OCGA) 50-17-63. Such cash is managed in a pooled investment fund 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 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 of Georgia 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.

Units of the University System of Georgia and their affiliated organizations may participate in the Regents Investment Pool. 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 SEC. The fair value of the position in the BPDUTF is the same as the value of the BPDUTF shares.

3. 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.

4. 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.

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

6. 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 Assets. 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

7. Compensated Absences

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 forty-five 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 ten hours of sick leave each month with a maximum accumulation of ninety 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 one hundred and twenty days or more of forfeited annual and sick leave are entitled to additional service credit in the Employees' Retirement System of Georgia. No liability is recorded for rights to receive sick pay benefits.

8. 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 assets and on the proprietary fund statement of net assets 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.

9. Net Assets
Net assets are reported as invested in capital assets, net of related debt, restricted or unrestricted. "Invested in capital assets, net of related debt" 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 assets result when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often are designated, indicating they are 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 assets 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.

10. 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 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 assets, 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.

11. 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 short-term 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 assets except for amounts due between governmental and business-type activities. These amounts are reported as internal balances on the statement of net assets.

Notes continued on the next page.

NOTE 2 – CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

Financial Reporting Entity

The Georgia Natural Resources Foundation was established on August 20, 2010 as a nonprofit organization to support the efforts of the Georgia Department of Natural Resources (DNR) to sustain, enhance, protect and conserve Georgia's natural, historic and cultural resources for present and future generations, while recognizing the importance of promoting the development of commerce and industry that utilize sound environmental practices. This foundation is included in the nonmajor governmental funds.

The Georgia Foundation for Public Education, a nonprofit organization, was created effective July 1, 2010, to solicit and accept contributions of money and in-kind contributions of services and property for the purpose of supporting educational excellence in Georgia at the Georgia Academy for the Blind, the Georgia School for the Deaf, and the Atlanta Area School for the Deaf. This foundation is included in the nonmajor discretely presented component units of the State.

In fiscal year 2010 it was determined that the Armstrong Atlantic State University Educational Properties Foundation Inc., a higher education foundation, met the requirements for inclusion in the financial reporting entity. The addition of this foundation resulted in an increase in the beginning net assets of the component units of $14.0 million.

Change in Accounting Method

The State issues general obligation (GO) bonds to provide funds for the acquisition and construction of major capital facilities and equipment. In prior fiscal years, the State reported the activity for capital projects funded with GO bond proceeds, in one of two ways. For those state agencies, whose GO bond proceeds are managed by the Georgia State Financing and Investment Commission (GSFIC), such activity was presented in a separate "GSFIC" fund. For state agencies, which manage their own capital projects, the activity was shown as part of the General Fund in the governmental funds' statements. In fiscal year 2011, the State has chosen to present all capital projects activity funded with GO bond proceeds in a single "General Obligation Bond Projects Fund." Separate reporting enhances an understanding of the government's capital activities, and helps avoid the distortions in financial resources trend information that can arise when capital and operating activities are mixed. The beginning net assets of the General Fund and the General Obligation Bond Projects Fund have each been restated by $4.5 million to reflect the reclassification of this activity.

Adoption of New Accounting Principles

In fiscal year 2011, the State implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which establishes accounting and financial reporting standards for all governments that report governmental funds. It establishes criteria for classifying fund balances into specifically defined classifications and clarifies definitions for governmental fund types.

Also in fiscal year 2011, the State implemented GASB Statement No. 59, *Financial Instruments Omnibus*. It emphasizes the applicability of Securities and Exchange Commission (SEC) requirements to certain external investment pools – known as 2a7-like pools – to provide users more consistent information on qualifying pools.

In fiscal year 2012, GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, takes effect. As Georgia does not have Agent multiple-employer plans, this Statement is not applicable. The State will implement GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions* – an amendment of GASB Statement No. 53, which is also effective for fiscal year 2012. The objective of this Statement is to clarify whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. This Statement sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied. As of the date of this report, the State has not determined the financial impact of implementing this Statement.

Correction of Prior Year Errors

During the fiscal year, it was determined that capital assets, net accumulated depreciation, were overstated within the governmental activities in fiscal year 2010 by $47.2 million resulting in an overstatement of net assets, as reported. The beginning net assets of the governmental activities were decreased to reflect correction of net capital assets.

During the fiscal year it was determined that compensated absence liability was understated within governmental activities in fiscal year 2010 by $9.0 million resulting in an overstatement of net assets, as reported. The beginning net assets of the governmental activities were decreased to reflect correction of this liability.

During the fiscal year it was determined that capital assets, net accumulated depreciation, were understated within various institutions of the Board of Regents (Higher Education Fund) in fiscal year 2010 by $9.6 million resulting an understatement of net assets, as reported. The beginning net assets of the Higher Education Fund were increased to reflect correction of net capital assets.

During the fiscal year, it was determined that deferred revenue within the Unemployment Compensation Fund (business-type activities – enterprise funds) was overstated in fiscal year 2010 by $7.8 million, resulting in an understatement of net assets. The beginning net assets of the Unemployment Compensation Fund were increased to reflect correction of deferred revenues.

Changes in fund equities as previously reported for the fund and activities at June 30, 2010 are summarized in Note 3.

Notes continued on the next page.

NOTE 3 – FUND EQUITY RECLASSIFICATIONS AND RESTATEMENTS

	June 30, 2010 As Previously Reported	Adjustments	June 30, 2010 (Restated)
Governmental Funds and Activities			
Major Funds:			
General Fund	$ 3,695,474	$ (4,453)	$ 3,691,021
Georgia State Financing and Investment Commission/ General Obligation Bond Projects Fund	1,323,352	4,453	1,327,805
Nonmajor Funds:			
Special Revenue Funds	76,419	-	76,419
Permanent Fund	14	-	14
Total Governmental Funds	5,095,259	-	5,095,259
Government-wide Adjustments			
Capital Assets, net of depreciation	20,422,593		
Correction of Prior Year Errors		(47,210)	20,375,383
Other Noncurrent Assets	28,713	-	28,713
Long-Term Liabilities	(11,600,581)		
Correction of Compensated Absence Liability		(8,983)	(11,609,564)
Inclusion of Internal Service Funds in Governmental Activities	561,578	-	561,578
Total Governmental Funds and Activities	**$14,507,562**	**$ (56,193)**	**$14,451,369**
Proprietary Funds and Business-Type Activities			
Major Funds:			
Higher Education Fund	$ 5,722,347		
Correction of Prior Year Errors		$ 9,643	$ 5,731,990
State Employees' Health Benefit Plan	(234,057)	-	(234,057)
Unemployment Compensation Fund	(102,110)		
Correction of Prior Year Errors		7,828	(94,282)
Nonmajor Funds:			
Enterprise Fund	52,005	-	52,005
Internal Service Funds	427,145	-	427,145
Internal Service Funds Look-Back Adjustments			
Removal of Internal Service Funds Relating to Governmental Activities	(561,581)	-	(561,581)
Total Proprietary Funds and Business-Type Activities	**$ 5,303,749**	**$ 17,471**	**$ 5,321,220**

	June 30, 2010 As Previously Reported	Adjustments	June 30, 2010 (Restated)
Fiduciary Funds			
Pension and Other Employee Benefit Trust Funds	$ 60,720,146	$ -	$ 60,720,146
Investment Trust Funds	4,990,958	-	4,990,958
Private Purpose Trust Funds	44,581	-	44,581
Total Fiduciary Funds	**$ 65,755,685**	**$ -**	**$ 65,755,685**
Discretely Presented Component Units			
Additions to Reporting Entity	$ 6,129,932	$ 14,014	$ 6,143,946
Total Discretely Presented Component Units	**$ 6,129,932**	**$ 14,014**	**$ 6,143,946**

Notes continued on the next page.

NOTE 4 – NET ASSETS/FUND BALANCES

A. Restricted Net Assets

Restricted net assets at June 30, 2011, are as follows (dollars in thousands):

	Governmental Activities	Business-Type Activities	Total Primary Government
Capital Projects	$ 928,295	$ 30,158	$ 958,453
Guaranteed Revenue Debt Common Reserve Fund	54,003	-	54,003
Lottery for Education	608,607	-	608,607
Motor Fuel Tax Funds	1,820,845	-	1,820,845
Permanent Trusts	14	432,235	432,249
Other Purposes	619,583	27,343	646,926
Total Restricted Net Assets	$ 4,031,347	$ 489,736	$ 4,521,083

The restricted net assets of the governmental activities include $92.0 million of net assets restricted by enabling legislation.

B. Fund Balances

The specific purposes of the governmental funds fund balances, classified as other than unassigned, at June 30, 2011 are as follows (dollars in thousands):

	General Fund	General Obligation Bond Projects Fund	Nonmajor Governmental Funds	Total
Nonspendable Fund Balance				
Not in Spendable Form	$ 94,810	$ -	$ 54	$ 94,864
Legally Required to be Maintained Intact	-	-	14	14
Total Nonspendable Fund Balance	$ 94,810	$ -	$ 68	$ 94,878
Restricted Fund Balance				
Capital Projects	$ -	$ 928,295	$ -	$ 928,295
Guaranteed Revenue Debt Common Reserve Fund	54,003	-	-	54,003
Lottery For Education	608,607	-	-	608,607
Roads and Bridges (Motor Fuel Tax Funds)	1,758,294	-	62,551	1,820,845
Unissued Debt/Debt Service	217,916	-	-	217,916
Other				-
General Government	37,885	88,758	-	126,643
Education	5,239	-	-	5,239
Health and Welfare	69,795	-	-	69,795
Transportation	59,865	-	-	59,865
Public Safety	59,527	-	-	59,527
Economic Development and Assistance	20,733	-	-	20,733
Culture and Recreation	59,828	-	-	59,828
Conservation	36	-	-	36
Total Restricted Fund Balance	$ 2,951,728	$ 1,017,053	$ 62,551	$ 4,031,332
Committed Fund Balance				
General Government	$ 7,995	$ -	$ -	$ 7,995
Economic Development and Assistance	1,408	-	-	1,408
Total Committed Fund Balance	$ 9,403	$ -	$ -	$ 9,403
Assigned Fund Balance				
General Government	$ 69,072	$ 9,969	$ -	$ 79,041
Education	34,323	-	-	34,323
Health and Welfare	51,514	-	-	51,514
Transportation	26,329	-	10,039	36,368
Public Safety	62,085	-	-	62,085
Economic Development and Assistance	4,259	-	395	4,654
Culture and Recreation	8,475	-	39	8,514
Conservation	619	-	-	619
Total Assigned Fund Balance	$ 256,676	$ 9,969	$ 10,473	$ 277,118

C. Deficit Net Assets

The following funds reported total net asset deficits at June 30, 2011:

The State Employees' Health Benefit Plan (enterprise fund) ended the year with a deficit net assets balance of $183.4 million. The deficit was created in the prior fiscal year as the result of benefits paid to plan participants in excess of employee and employer contributions.

The Unemployment Compensation Fund (enterprise fund) ended the year with a deficit net assets balance of $294.8 million. The deficit was the result of benefits paid to claimants in excess of employer contribution in both the current and prior fiscal year.

The Unemployment Compensation Risk Management Fund at the Department of Administrative Services (internal service fund) ended the year with a deficit net assets balance of $4.9 million. This deficit was created in the prior year as the result of benefits paid to claimants in excess of employer contributions.

Charges by the Department of Administrative Services internal service fund have failed to recover the full cost of services provided. Therefore, the unadjusted deficit at June 30, 2011, of $790 thousand for this fund was charged back to the contributing funds. Expenditures of $490 thousand are reported in the General Fund and expenses of $6 thousand are reported in the Higher Education Fund (enterprise fund) relating to this charge back.

Notes continued on the next page.

NOTE 5 - DEPOSITS AND INVESTMENTS

Cash and investments as of June 30, 2011 are classified in the accompanying financial statements as follows:

	Primary Government and Fiduciary Funds	Component Units	Total
Cash and Cash Equivalents	$ 3,602,703	$ 988,111	$ 4,590,814
Investments	2,803,763	2,956,631	5,760,394
Restricted Assets			
Cash and Cash Equivalents	128,503	378,702	507,205
Investments	105,581	446,729	552,310
Fiduciary Funds			
Cash and Cash Equivalents	3,822,145	-	3,822,145
Investments	72,177,503	-	72,177,503
Total Cash and Investments	**$ 82,640,198**	**$ 4,770,173**	**$ 87,410,371**

Cash and investments as of June 30, 2011 consist of the following:

	Primary Government and Fiduciary Funds	Component Units	Total
Cash on Hand	$ 5,321	$ 65	$ 5,386
Deposits with Financial Institutions (Note 5A)	3,579,672	978,562	4,558,234
Investments (Note 5B)	79,687,287	3,159,464	82,846,751
Assets Held at the Office of the State Treasurer on Behalf of Other Organizations	(632,082)	632,082	-
Total Cash and Investments	**$ 82,640,198**	**$ 4,770,173**	**$ 87,410,371**

A. Deposits

Deposits include bank accounts and short-term investments, especially certificates of deposit. Funds belonging to the State of Georgia cannot be placed in a depository paying interest longer than ten days without the depository providing a surety bond to the State. In lieu of a surety bond, the depository may pledge as collateral 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 United States or of the State of Georgia.

2) Bonds, bills, notes, certificates of indebtedness or other obligations of the counties or municipalities of the State of Georgia.

3) Bonds of any public authority created by the laws of the State of Georgia, 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 of Georgia.
5) Bonds, bills, certificates of indebtedness, notes or other obligations of a subsidiary corporation of the United States government, which are fully guaranteed by the United States government 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 State Depository Board (Board) is authorized in OCGA 50-17-53 to allow agencies of the State of Georgia the option of exempting demand deposits from the collateral requirements. However, the Board currently is not approving waiver requests and is requiring all state demand and time deposits be collateralized in an amount equal to and not less than 110% of any deposits not insured. 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, 2011, bank balances of the primary government and its component unit's deposits totaled $4.6 billion. Of these deposits, $448.1 million were exposed to custodial credit risk as follows (in thousands).

	Primary Government	Component Units	Total
Uninsured and uncollaterized	$ -	$ 23,511	$ 23,511
Uninsured and collateralized with securities held by the pledging financial institutions	77,462	156	77,618
Uninsured and collateralized with securities held by the pledging institutions's trust departments or agents, but not in the State's name	157,067	189,867	346,934
Total deposits exposed to custodial credit risk	**$ 234,529**	**$ 213,534**	**$ 448,063**

The carrying amounts of deposits of certain higher education foundations which utilize FASB standards were $257 million. These deposits are not included in the balances reflected above.

B. Investments

Primary Government

The investment policy of the State of Georgia is to maximize the protection of State funds on deposit while accruing an advantageous yield on those funds in excess of those required for current operating expenses (OCGA 50-17-51).

Authorized pool investments are limited to the following in accordance with State statutes:

1) Obligations of the State of Georgia or of other states
2) Obligations issued by the United States government
3) Obligations fully insured or guaranteed by the United States government or a United States government agency
4) Obligations of any corporation of the United States government
5) Prime banker acceptances
6) Repurchase Agreements
7) Obligations of other political subdivisions of the State
8) Commercial paper issued by domestic corporations

Authorized investments are subject to certain restrictions.

Pooled cash and cash equivalents and investments are grouped into portfolios for investment purposes according to the operating needs of the State of Georgia and other pool contributors.

Pension and Other Employee Benefit Trust Funds

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

1) United States 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 United States 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 United States 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 government of the United States of America.
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 United States of America 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 United States of America 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 United States of America, and the right to receive determinated 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 47-7-127, the Georgia Firefighters' Pension Fund is authorized to invest in alternative investments such as Venture Capital Investments, Warrants, Options, Convertible Securities, Receivables, Debt and Equity Derivative Instruments, etc. The amount invested in alternative investments may not in the aggregate exceed five percent of the Firefighters' Pension Fund assets at any time.

Component Units

Component units follow applicable investing criteria described above for the primary government. Certain higher education foundations utilize FASB standards. Balances for those component units as of June 30, 2011, are available as follows (in thousands):

	Fair Value
Alternative Strategies	$ 149
Cash Held by Investment Organization	76,089
Certificates of Deposit	750
Corporate Bonds	165,342
Diversifying Strategies	564,255
Equity Securities	162,403
Government and Agency Securities	9,956
Fixed Income	772,191
Investment Pools	4,859
Hedge Funds	282,740
Joint Ventures/Partnerships	18,082
Money Market Accounts	45,762
Mortgage Backed Securities	1,010
Mutual Funds	89,710
Natural Resources	74,711
Real Estate	83,925
Venture Capital	614
Total Investments	**$ 2,352,548**

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

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

The State manages interest rate risk by attempting to match investments with expected cash requirements.

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 on the following page provides information about the primary government's exposure to interest rate risk (in thousands).

(Table on the next page.)

	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	$ 12,623	$ 2,400	$ 2,496	$ 7,135	$ 592	$ -
Banker's Acceptances	198,422	178,999	19,423	-	-	-
Corporate Debt						
Domestic	43,133	526	957	29,927	5,886	5,837
International Government						
Obligations	2,000	-	2,000	-	-	-
Money Market Mutual Funds	704	704	-	-	-	-
Mortgage-Backed Securities						
Commercial	9,054	-	-	2,944	-	6,110
Municipal Bonds	1,091	-	5	137	602	347
Mutual Funds - Debt*	71,632	-	5	9,305	1,402	60,920
Repurchase Agreements	4,085,877	4,050,000	35,877	-	-	-
U. S. Agency Obligations	4,470,014	728,196	2,195,661	1,239,027	51,091	256,039
U. S. Treasury Obligations	127,452	19,598	14,164	82,587	9,937	1,166
Total Debt Securities	**9,022,002**	**$ 4,980,423**	**$ 2,270,588**	**$ 1,371,062**	**$ 69,510**	**$ 330,419**
Equity Securities - Domestic	69,802					
Equity Securities - International	2,384					
Funds on Deposit with U. S. Treasury for Unemployment Compensation	303,693					
Mutual Funds - Equity	62,010					
Real Estate	5,734					
Real Estate Investment Trust	5,455					
Total Investments	**$ 9,471,080**					

*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 to the right 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	$ 5,690,760	5.1
International Obligations:		
Government	1,015,867	4.0
Corporate	410,416	2.0
Repurchase Agreements	1,942,382	0.0
U. S. Agency Obligations	22,272	1.6
U. S. Treasury Obligations	11,149,206	5.2
Total Debt Securities	20,230,903	
Common Stock	47,627,960	
Mutual Funds - Equity	991,710	
Total Investments	**$ 68,850,573**	

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).

	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	$ 28,148	$ -	$ -	$ 6,494	$ 2,062	$ 19,592
International	501	-	-	-	501	-
Corporate Debt						
Domestic	147,424	886	5,812	53,086	56,868	30,772
International	10,135	-	21	2,980	5,202	1,932
Mortgage-Backed Securities						
Commercial	62,674	-	-	-	4,180	58,494
Municipal Bonds	3,017	-	25	885	1,204	903
Mutual Funds - Debt*	27,569	-	-	27,569	-	-
Repurchase Agreements	-	-	-	-	-	-
U. S. Agency Obligations	123,668	-	1,654	12,478	10,324	99,212
U. S. Treasury Obligations	32,747	-	-	14,533	5,259	12,955
Total Debt Securities	**$ 435,883**	**$ 886**	**$ 7,512**	**$118,025**	**$ 85,600**	**$223,860**
Equity Securities						
Domestic	371,034					
International	29,518					
Mutual Funds - Equity	503,340					
Real Estate Investment Trust	25,859					
Total Investments	**$ 1,365,634**					

*Maturity period is weighted average maturity.

Component Units

The component units follow the applicable investing criteria described above for the primary government.

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	$ 19,602	$ -	$ -	$ 5,834	$ 1,771	$ 11,997
Corporate Debt						
Domestic	73,482	227	7,199	53,696	11,160	1,200
International	7,028	-	-	4,449	2,114	465
Investment Agreements	36,642	-	-	-	2,808	33,834
Money Market Mutual Funds	11,478	1,959	9,519	-	-	-
Mortgage-Backed Securities						
Commercial	120,588	349	-	5,276	1,606	113,357
Municipal Bonds	11,422	-	-	5,294	1,643	4,485
Mutual Fund - Debt*	862	-	-	862	-	-
U. S. Agency Obligations	111,539	10,548	5,782	53,153	24,368	17,688
U. S. Treasury Obligations	331,605	26,735	35,531	144,950	64,421	59,968
Total Debt Securities	**724,248**	**$ 39,818**	**$ 58,031**	**$ 273,514**	**$ 109,891**	**$ 242,994**
Equity Securities						
Domestic	33,315					
International	13,922					
Real Estate Investment Trust	365					
Mutual Funds - Equity	35,066					
Total Investments	**$ 806,916**					

* 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

The State's investment policies include the following investing restrictions to manage credit risk:

1) Repurchase agreements and reverse repurchase agreements may be transacted only with authorized dealers and banks of a certain size with other restrictions requiring approval of the State Treasurer.
2) Commercial paper issued by domestic corporations may carry ratings no lower than P-1 by Moody's Investors Service and A-1 by Standard & Poor's Corporation.
3) Prime bankers acceptances must carry the highest rating assigned to such investments by a nationally recognized rating agency.
4) Obligations issued by this State or its agencies or other political subdivisions of this State, if meeting statutory requirements, may be approved for investment by the State Treasurer.
5) Obligations of domestic corporations must be rated investment grade or higher by a nationally recognized rating agency.
6) Direct obligations of the government of any foreign country and obligations issued, assumed or guaranteed by the International Bank for Reconstruction and Development or the International Financial Corporation must be rated A or higher by a nationally recognized rating agency.
7) Such other limitations as determined by the State Treasurer necessary for the preservation of principal, liquidity, or marketability of any of the State's portfolios.

The exposure of the primary government's debt securities to credit risk is indicated below (in thousands):

	Total Fair Value	AAA	AA	A	BAA	BBB	BB	Not Rated
Asset-Backed Securities	$ 12,623	$ 7,727	$ -	$ 4,896	$ -	$ -	$ -	$ -
Banker's Acceptances	198,422	-	-	198,422	-	-	-	-
Corporate Debt								
Domestic	43,133	4,780	8,127	23,255	3,273	1,068	-	2,630
International Government								
Obligations	2,000	-	-	-	-	-	-	2,000
Money Market Mutual Funds	704	704	-	-	-	-	-	-
Mortgage-Backed Securities								
Commercial	9,054	7,193	363	1,498	-	-	-	-
Municipal Bonds	1,091	1,089	-	-	-	-	-	2
Mutual Funds - Debt	71,632	22	1	14,807	-	2,114	1	54,687
Repurchase Agreements	4,050,000	-	-	4,050,000	-	-	-	-
U. S. Agency Obligations	4,430,838	4,108,971	-	19,998	-	-	-	301,869
Total Credit Risk - Investments	**8,819,497**	**$ 4,130,486**	**$ 8,491**	**$ 4,312,876**	**$ 3,273**	**$ 3,182**	**$ 1**	**$ 361,188**
U. S. Treasury Obligations	127,452							
U. S. Agency Obligations								
Explicitly Guaranteed	39,176							
Repurchase Agreements Backed								
by U. S. Treasury Obligations	35,877							
Total Debt Securities	**$ 9,022,002**							

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 described above. 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):

	Total Fair Value	Asset-Backed Securitits Domestic	Asset-Backed Securitits Inter-national	Corporate Debt Domestic	Corporate Debt Inter-national	International Government Obligations	Mortgage-Backed Securities	Municipal Bonds	Mutual Funds - Debt	Repurchase Agreements	U. S. Agency Obligations
AAA	$ 1,200,907	$ 12,519	$ 501	$ 793,001	$ 10	$ 306,024	$ 10,058	$ 361	$ -	$ -	$ 78,433
AA	4,992,833	1,187	-	4,146,992	411,140	408,772	2,470	-	-	-	22,272
A	3,084,011	1,219	-	824,693	2,894	301,071	9,141	2,611	-	1,942,382	-
BAA	12,612	808	-	6,713	1,526	-	3,565	-	-	-	-
BA	24,135	1,661	-	18,453	1,594	-	2,166	-	261	-	-
BBB	62,965	3,097	-	44,767	3,077	-	12,024	-	-	-	-
BB	6,458	831	-	2,405	-	-	2,557	-	-	-	665
B	12,251	3,643	-	90	25	-	7,579	45	869	-	-
CAA	4,870	423	-	-	-	-	4,447	-	-	-	-
CA	3,301	1,114	-	-	-	-	2,187	-	-	-	-
CCC	1,611	973	-	-	-	-	638	-	-	-	-
CC	1,120	-	-	-	-	-	1,120	-	-	-	-
C	811	202	-	-	-	-	609	-	-	-	-
D	810	471	-	-	-	-	339	-	-	-	-
Unrated	61,565	-	-	1,070	285	-	3,774	-	26,439	-	29,997
Total Credit Risk - Investments	**9,470,260**	**$ 28,148**	**$ 501**	**$ 5,838,184**	**$ 420,551**	**$ 1,015,867**	**$ 62,674**	**$ 3,017**	**$ 27,569**	**$ 1,942,382**	**$ 131,367**
U. S. Treasury Obligations	11,181,953										
U. S. Agency Obligations Explicitly Guaranteed	14,573										
Total Debt Securities	**$20,666,786**										

Component Units

The component units follow the applicable investing criteria described above for the primary government.

The exposure of the component units' debt securities to credit risk is indicated below (in thousands):

	Total Fair Value	Asset-Backed Secutities - Domestic	Corporate Debt Domestic	Corporate Debt Inter-national	Investment Agreements	Money Market Mutual Funds	Mortgage-Backed Securities - Commercial	Municipal Bonds	Mutual Funds - Debt	U. S. Agency Obligations
AAA	$ 272,234	$ 14,622	$ 2,905	$ 1,235	$ 25,650	$ 9,519	$ 118,359	$ 144	$ 537	$ 99,263
AA	38,251	2,509	16,584	1,027	10,132	-	1,039	6,704	34	222
A	50,024	1,528	39,624	2,117	860	-	89	4,574	69	1,163
BAA	4,963	-	4,211	-	-	-	752	-	-	-
BA	221	-	-	-	-	-	-	-	221	-
BBB	11,825	709	8,353	2,649	-	-	114	-	-	-
BB	1,861	56	1,805	-	-	-	-	-	-	-
B	130	-	-	-	-	-	130	-	-	-
CAA	60	-	-	-	-	-	60	-	-	-
CCC	178	178	-	-	-	-	-	-	-	-
C	16	-	-	-	-	-	16	-	-	-
Unrated	2,344	-	-	-	-	1,959	29	-	1	355
Total Credit Risk - Investments	**382,107**	**$ 19,602**	**$ 73,482**	**$ 7,028**	**$ 36,642**	**$ 11,478**	**$ 120,588**	**$ 11,422**	**$ 862**	**$ 101,003**
U. S. Treasury Obligations	331,605									
U. S. Agency Obligations Explicitly Guaranteed	10,536									
Total Debt Securities	**$ 724,248**									

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 State's investment policies include the following restrictions to manage custodial credit risk for investments:
1) Repurchase agreements must be collateralized by obligations of the United States and its subsidiary corporations and instrumentalities or entities sanctioned or authorized by the United States government having a market value of at least 102% of the investment. Collateral must be held by a third party custodian approved by the State Treasurer and marked-to-market daily.
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 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.

At June 30, 2011, $50.7 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.

Pension and Other Employee Benefit Trust Funds
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, 2011, $717.5 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.

Component Units
The component units follow the applicable investing criteria described above for the primary government. At June 30, 2011, $72.1 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.

Primary Government
The State does not have a formally adopted policy for managing concentration of credit risk. At June 30, 2011, approximately 89.5% 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, 2011, 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 described above for the primary government. At June 30, 2011, 12.5% of the component units' total investments were investments in securities of U. S. Agencies not explicitly guaranteed by the U. S. government.

C. Investment in Direct Financing Lease

On November 1, 2008, the Georgia Higher Education Facilities Authority entered into a lease with the lessee being the USG Real Estate Foundation I, Inc., LLC, for several projects located on campuses across the State of Georgia with the Board of Regents of the University System of Georgia for $99.9 million. On July 23, 2009, the Authority entered into a loan agreement with the USG Real Estate Foundation II, LLC, for several projects located on campuses across the State of Georgia with the Board of Regents of the University System of Georgia for $100.9 million.

On August 12, 2010, the Authority entered into a loan agreement with the USG Real Estate Foundation III, LLC, for several projects located on campuses across the State of Georgia with the Board of Regents of the University System of Georgia for $94.2 million. As of June 30, 2011, the estimated annual payments to be received under this lease are shown below:

	Principal	Interest	Total
2012	$ 3,600	$ 15,131	$ 18,731
2013	3,935	15,017	18,952
2014	4,215	14,876	19,091
2015	4,535	14,708	19,243
2016	4,875	14,508	19,383
2017-2021	30,185	69,147	99,332
2022-2026	42,045	60,822	102,867
2027-2031	54,920	48,830	103,750
2032-2036	72,335	32,032	104,367
2037-2041	72,265	10,314	82,579
Total Investment	**$ 292,910**	**$ 295,385**	**$ 588,295**

D. 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 $363.6 million at June 30, 2011, and the collateral value was equal to 105%. 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 Assets because the State maintains ownership. The related collateral securities are not recorded as assets on the Statement of Net Assets, 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 110% of the loaned securities value, depending on the type of collateral security.

Securities loaned totaled $ 13.3 billion at June 30, 2011, and the collateral value was equal to 105.7%. 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 Assets because the State maintains ownership. The related collateral securities are not recorded as assets on the Statement of Fiduciary Net Assets, and a corresponding liability is not recorded, since the State does not pledge or trade the collateral securities.

E. 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 (Department) 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, 2011, the Department held surety bonds in the amount of $36.2 million, and cash bonds in the amount of $15.2 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 of Georgia 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, 2011, securities valued at $234.9 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 $13.7 billion for construction performance to ensure proper completion and complete performance of construction contracts, and $14.9 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 Georgia State Financing and Investment Commission 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 $8.4 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 (Department) 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, 2011, the department held surety bonds in the amount of $60.1 million. These bonds are not recorded on the Statement of Net Assets.

F. 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, 2011, and related risk disclosures for investments are as follows:

Georgia Fund 1

The Primary Liquidity portfolio is a stable net asset value investment pool that follows Standard and Poor's criteria for AAAm rated money market funds. 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.

Georgia Fund 1
Statement of Net Assets
June 30, 2011
(dollars in thousands)

Assets	
Cash and Cash Equivalents	$5,163,817
Investments	2,763,751
Net Assets	**$7,927,568**
Distribution of Net Assets	
External Participant Account Balances	$4,966,436
Internal Participant Account Balances	2,961,132
Total Net Assets	**$7,927,568**

Georgia Fund 1
Statement of Changes in Net Assets
For the Fiscal Year Ended June 30, 2011
(dollars in thousands)

Additions	
Pool Participant Deposits	$29,894,883
Investment Income	
Interest	19,038
Less: Investment Expense	(2,524)
Total Additions	**29,911,397**
Deductions	
Pool Participant Withdrawals	31,047,576
Net Increase	**(1,136,179)**
Net Assets	
July 1, 2010	9,063,747
June 30, 2011	**$ 7,927,568**

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, 2011, was $1.7 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 described above for the primary government. In addition, fund managers restrict investments of the Fund in order to maintain the Standard and Poor's AAAm rating.

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. The Fund's investments are presented below (in thousands):

	Total Fair Value	Maturity Period: Less than 3 Months	4 - 12 Months	1 - 5 Years	Range of Yields
Banker's Acceptances	$ 25,637	$ 25,637	$ -	$ -	.000% - .000%
Repurchase Agreements	3,500,000	3,500,000	-	-	.050% - .100%
U. S. Agency Obligations	2,763,751	685,469	2,058,282	20,000	.000% - 5.500%
Total Investments	**$ 6,289,388**	**$ 4,211,106**	**$ 2,058,282**	**$ 20,000**	

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The exposure of the Fund's debt securities to credit risk is indicated below (in thousands):

	Total Fair Value	Credit Rating AAA	A
Banker's Acceptances	$ 25,637	$ -	$ 25,637
Repurchase Agreements	3,500,000	-	3,500,000
U. S. Agency Obligations	2,763,751	2,763,751	-
	$ 6,289,388	**$ 2,763,751**	**$ 3,525,637**

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. At June 30, 2011, more than five percent 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 99.6 percent of total investments.

Georgia Extended Asset Pool

The Extended Term Portfolio is a variable net asset value investment pool that follows Standard and Poor's criteria for AAAf money market rated funds. The pool is not registered with the SEC as an investment company.

Georgia Extended Asset Pool
Statement of Net Assets
June 30, 2011
(dollars in thousands)

Assets	
Cash and Cash Equivalents	$ 64,362
Investments	127,129
Net Assets	**$ 191,491**
Distribution of Net Assets	
External Participant Account Bala	$ 136,303
Internal Participant Account Balan	55,188
Total Net Assets	**$ 191,491**

Georgia Extended Asset Pool
Statement of Changes in Net Assets
For the Fiscal Year Ended June 30, 2011
(dollars in thousands)

Additions	
Pool Participant Deposits	$ 70,300
Investment Income	
Interest	3,588
Fair Value Decrease	(1,923)
Less: Investment Expense	(79)
Total Additions	**71,886**
Deductions	
Pool Participant Withdrawals	75,274
Net Increase	**(3,388)**
Net Assets	
July 1, 2010	194,879
June 30, 2011	**$191,491**

Deposits

Because the State does not maintain separate bank accounts for Georgia Extended Asset Pool, separate custodial credit risk disclosures for the Pool's deposits cannot be presented. The carrying amount of the Pool's deposits as of June 30, 2011, was $64.4 million. This amount is included in the deposit disclosures of the Primary Government.

Investments

Georgia Extended Asset Pool follows applicable investing criteria and investment risk management policies described above for the primary government. In addition, the fund managers restrict investments of the Pool in order to maintain the Standard and Poor's AAAf rating.

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. The Pool's investments are presented below (in thousands):

		Maturity Period		Range
	Total Fair Value	Less then 3 Months	1 - 5 Years	of Yields
U. S. Agency Obligations	$ 127,129	$ 30,724	$ 96,405	.500% - 5.375%

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The exposure of the Pool's debt securities to credit risk is indicated below (in thousands):

	Total	Credit Rating
	Fair Value	AAA
U. S. Agency Obligations	$ 127,129	$ 127,129

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. At June 30, 2011, all of the Pool's investments were investments in securities of U. S. agencies not explicitly guaranteed by the U. S. government.

Regents Investment Pool

The Regents Investment Pool is not registered with the SEC as an investment company.

Regents Investment Pool
Statement of Net Assets
June 30, 2011
(dollars in thousands)

Assets		
Investments	$	331,264
Interest Receivable		709
Net Assets	**$**	**331,973**
Distribution of Net Assets		
External Participant Account Balances	$	16,864
Internal Participant Account Balances		315,109
Total Net Assets	**$**	**331,973**

Regents Investment Pool
Statement of Changes in Net Assets
For the Fiscal Year Ended June 30, 2011
(dollars in thousands)

Additions		
Pool Participant Deposits	$	101,215
Investment Income		8,347
Interest		
Fair Value Increase		10,938
Less: Investment Expense		(517)
Total Additions		**119,983**
Deductions		
Pool Participant Withdrawals		(37,125)
Net Increase		82,858
Net Assets		
July 1, 2010		249,115
June 30, 2011	**$**	**331,973**

Deposits

Because the State does not maintain separate bank accounts for Regents Investment Pool, separate custodial credit risk disclosures for the Pool's deposits cannot be presented. The carrying amount of the Pool's deposits as of June 30, 2011, was $709 thousand. This amount is included in the deposit disclosures of the Primary Government.

Investments

The Regents Investment Pool policy guidelines ndicate 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

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The Pool's funds policy guidelines restrict average maturities of their holdings. The Pool's investments are presented in the following table (in thousands):

		Maturity Period			
	Total Fair Value	**Less than 1 Year**	**1 - 5 Years**	**6 - 10 Years**	**More Than 10 Years**
Money Market Mutual Funds	$ 2,764	$ 2,764	$ -	$ -	$ -
Mutual Fund - Debt	31,525	31,525	-	-	-
Repurchase Agreements	28,768	28,768	-	-	-
U. S. Agency Obligations	207,529	8,091	19,871	44,573	134,994
U. S. Treasury Obligations	1,754	-	-	1,754	-
Total Debt Securities	**272,340**	**$ 71,148**	**$ 19,871**	**$ 46,327**	**$ 134,994**
Equity Securities					
Domestic	56,056				
Mutual Funds - Equity	500				
Real Estate Investment Fund	2,368				
Total Investments	**$ 331,264**				

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The 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. At June 30, 2011, the Pool's applicable U. S. Agency Obligations and Mutual Bond Fund were unrated.

Custodial Credit Risk – Investments

As indicated above, custodial credit risk is the risk that, in the event of a bank failure, the State's investments may not be recovered. 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, 2011, $328.9 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

Concentration of credit risk is the risk of loss attributed to the magnitude of the State's investment in a single issuer. 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, 2011 more than 5 percent of the Pool's total investments were investments in securities of U. S. agencies not explicitly guaranteed by the U. S. government. These investments represented 55.5 percent of total investments.

Notes continued on the next page.

NOTE 6 – RECEIVABLES

Receivables at June 30, 2011, 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	$ 1,570,212	$ 1,321	$ 336,877	$ 1,084,605	$ 2,993,015	$ (145,112)	$ 2,847,903
General Obigation Bond Projects	-	-	79,236	-	79,236	-	79,236
Nonmajor Governmental Funds	-	-	4,375	-	4,375	-	4,375
Total - Governmental Funds	1,570,212	1,321	420,488	1,084,605	3,076,626	(145,112)	2,931,514
Government-wide adjustments:							
General Fund	-	-	2,724	-	2,724	-	2,724
Internal Service Funds	-	-	45,107	822	45,929	(841)	45,088
Total - Governmental Activities	$ 1,570,212	$ 1,321	$ 468,319	$ 1,085,427	$ 3,125,279	$ (145,953)	$ 2,979,326
Business-Type Activities:							
Higher Education Fund	$ -	$ 45,569	$ 270,121	$ 135,094	$ 450,784	$ (19,082)	$ 431,702
State Employees' Health Benefit Plan	-	-	44,680	-	44,680	(3,926)	40,754
Unemployment Compensation Fund	-	-	193,056	3,613	196,669	(16,563)	180,106
State Road and Tollway Authority	-	-	42	-	42	(8)	34
Georgia Higher Education Facilities Authority	-	292,910	630	-	293,540	-	293,540
Total - Business-type Activities	$ -	$ 338,479	$ 508,529	$ 138,707	$ 985,715	$ (39,579)	$ 946,136
Component Units:							
Georgia Environmental Finance Authority	$ -	$ 1,485,270	$ 32,723	$ 21,039	$ 1,539,032	$ -	$ 1,539,032
Georgia Housing and Finance Authority	-	1,312,330	9,763	-	1,322,093	(5,674)	1,316,419
Georgia Lottery Corporation	-	-	182,815	-	182,815	(2,980)	179,835
Georgia Tech Foundation, Incorporated	-	1,021	234,357	-	235,378	-	235,378
Nonmajor Component Units	464	299,703	2,153,633	14,787	2,468,587	(37,003)	2,431,584
Total - Component Units	$ 464	$ 3,098,324	$ 2,613,291	$ 35,826	$ 5,747,905	$ (45,657)	$ 5,702,248

Notes continued on the next page.

NOTE 7 – CAPITAL ASSETS

Primary Government

Capital Asset activity for the fiscal year-ended June 30, 2011, was as follows (in thousands):

	Balance July 1, 2010 (Restated - Note 3)	Increases	Decreases	Balance June 30, 2011
Governmental Activities:				
Capital Assets Not Being Depreciated:				
Land	$ 2,927,663	$ 160,715	$ (3,852)	$ 3,084,526
Works of Art and Collections	1,334	-	-	1,334
Intangibles - Other than Software	71,610	20,019	(75)	91,554
Construction in Progress	5,378,749	2,099,887	(3,150,624)	4,328,012
Total Capital Assets, Not Being Depreciated	8,379,356	2,280,621	(3,154,551)	7,505,426
Capital Assets Being Depreciated:				
Infrastructure	21,195,410	2,103,042	-	23,298,452
Buildings	3,437,911	161,909	(75,309)	3,524,511
Improvements Other Than Buildings	74,441	9,124	(1,072)	82,493
Machinery and Equipment	894,278	53,737	(47,618)	900,397
Software	217,839	16,108	(13,632)	220,315
Total Capital Assets Being Depreciated	25,819,879	2,343,920	(137,631)	28,026,168
Less Accumulated Depreciation For:				
Infrastructure	11,240,641	839,950	(3,131)	12,077,460
Buildings	1,431,113	116,150	(31,908)	1,515,355
Improvements Other Than Buildings	41,811	1,786	(1,219)	42,378
Machinery and Equipment	678,388	46,518	(28,510)	696,396
Software	138,179	12,603	(9,186)	141,596
Total Accumulated Depreciation	13,530,132	1,017,007	(73,954)	14,473,185
Total Capital Assets, being Depreciable, Net	12,289,747	1,326,913	(63,677)	13,552,983
Governmental Activities Capital Assets, Net	$ 20,669,103	$ 3,607,534	$ (3,218,228)	$ 21,058,409

	Balance July 1, 2010 (Restated - Note 3)	Increases	Decreases	Balance June 30, 2011
Business-Type Activities:				
Capital Assets Not Being Depreciated:				
Land	$ 295,969	$ 66,943	$ (37)	$ 362,875
Works of Art and Collections	40,111	499	2	40,612
Construction in Progress	229,355	190,082	(176,211)	243,226
Total Capital Assets, Not Being Depreciated	565,435	257,524	(176,246)	646,713
Capital Assets Being Depreciated:				
Infrastructure	249,499	9,397	(202)	258,694
Buildings	7,092,030	665,965	(10,845)	7,747,150
Improvements Other Than Buildings	335,505	41,252	(9,539)	367,218
Machinery and Equipment	3,021,931	614,690	(53,498)	3,583,123
Software	16,654	34	-	16,688
Library Collections	747,023	37,392	(10,224)	774,191
Works of Art and Collections	7,202	99	(18)	7,283
Total Capital Assets Being Depreciated	11,469,844	1,368,829	(84,326)	12,754,347
Less Accumulated Depreciation For:				
Infrastructure	74,670	8,065	(352)	82,383
Buildings	1,990,719	179,169	(5,547)	2,164,341
Improvements Other Than Buildings	139,292	10,898	(1,371)	148,819
Machinery and Equipment	1,149,811	186,310	(51,745)	1,284,376
Software	7,822	1,335	-	9,157
Library Collections	570,384	34,886	(10,118)	595,152
Works of Art and Collections	595	137	(4)	728
Total Accumulated Depreciation	3,933,293	420,800	(69,137)	4,284,956
Total Capital Assets, being Depreciable, Net	7,536,551	948,029	(15,189)	8,469,391
Business-Type Activities, Capital Assets, Net	$ 8,101,986	$ 1,205,553	$ (191,435)	$ 9,116,104

Governmental Activities		
General Government	$	14,771
Education		1,154
Health and Welfare		37,087
Transportation		849,964
Public Safety		55,083
Economic Development		24,284
Culture and Recreation		8,473
Conservation		4,947
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		21,244
Depreciation Expense - Governmental Activities	**$**	**1,017,007**

Business Type Activities		
Higher Education Fund	$	420,061
State Road and Tollway Authority		739
Depreciation Expense - Business-Type Activities	**$**	**420,800**

	Balance July 1, 2010 (Restated *)	Increases	Decreases	Balance June 30, 2011
Component Units :				
Capital Assets Not Being Depreciated:				
Land	$ 315,777	$ 9,780	$ (3,263)	$ 322,294
Works of Art and Collections	1,012	-	(309)	703
Intangibles - Other than Software	-	753	-	753
Construction in Progress	159,177	134,882	(166,675)	127,384
Total Capital Assets, Not Being Depreciated	475,966	145,415	(170,247)	451,134
Capital Assets Being Depreciated:				
Infrastructure	250,683	12,464	(1,274)	261,873
Buildings	979,956	65,424	(14,170)	1,031,210
Improvements Other Than Buildings	426,431	42,504	(14,547)	454,388
Intangibles - Other than Software	475	-	(475)	-
Machinery and Equipment	774,528	80,248	(8,147)	846,629
Software	4,436	1,479	-	5,915
Works of Art and Collections	71	-	-	71
Total Capital Assets Being Depreciated	2,436,580	202,119	(38,613)	2,600,086
Less Accumulated Depreciation For:				
Infrastructure	85,532	6,960	(889)	91,603
Buildings	417,073	28,000	(16,754)	428,319
Improvements Other Than Buildings	174,605	17,642	3,067	195,314
Machinery and Equipment	410,320	53,757	(7,198)	456,879
Software	1,012	1,292	-	2,304
Works of Art and Collections	7	2	-	9
Total Accumulated Depreciation	1,088,549	107,653	(21,774)	1,174,428
Component Units Capital Assets, Net (GASB Presentation)	$ 1,823,997	$ 239,881	$ (187,086)	$ 1,876,792

* Beginning capital assets have been reduced by $99.1 million to reflect the change in presentation of one of the higher education foundations from GASB to FASB standards.

Certain higher education foundations and other similar organizations utilize FASB standards; therefore, only the June 30, 2011, balances are available as follows:

Capital Assets Not Being Depreciated:	
Land	$ 34,713
Construction in Progress	80,583
Total Capital Assets, Not Being Depreciated	115,296
Capital Assets Being Depreciated:	
Buildings	279,890
Machinery and Equipment	29,781
Software	30
Total Capital Assets Being Depreciated	309,701
Less: Accumulated Depreciation	(66,992)
Capital Assets, Net (FASB presentation)	358,005
Total Capital Assets, Net - All Component Units	**$ 2,234,797**

Notes continued on the next page.

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, 2011, are as follows (in thousands):

	Balance July 1, 2010 (Restated - Note 3)	Additions	Reductions	Balance June 30, 2011	Amounts Due Within One Year
Governmental Activities:					
General Obligation Bonds Payable	$ 8,630,635	$ 653,925	$ 733,415	$ 8,551,145	$ 739,460
Revenue Bonds Payable	489,085	344,420	400,885	432,620	29,170
GARVEE Bonds Payable	1,416,850	-	117,500	1,299,350	122,560
Less deferred amounts:					
On Refunding	(181,791)	(15,813)	(15,372)	(182,232)	-
Net Unamortized Premiums	492,438	87,991	58,157	522,272	-
Total Bonds Payable	10,847,217	1,070,523	1,294,585	10,623,155	891,190
Notes and Loans Payable	27,614	-	8,014	19,600	5,000
Capital Lease Obligations	242,430	49,292	68,293	223,429	26,234
Compensated Absences Payable	331,343	128,643	137,565	322,421	132,632
Arbitrage	13,357	6,026	6,694	12,689	1,215
Total Governmental Activities	**$ 11,461,961**	**$ 1,254,484**	**$ 1,515,151**	**$ 11,201,294**	**$ 1,056,271**
Business-Type Activities:					
Revenue Bonds Payable	$ 217,660	$ 134,210	$ 21,835	$ 330,035	$ 9,420
Less deferred amounts:					
On Refunding	(268)	-	(268)	-	-
Net Unamortized Premiums (Discounts)	(3,578)	2,129	(11)	(1,438)	-
Total Bonds Payable	213,814	136,339	21,556	328,597	9,420
Notes and Loans Payable	424,424	312,000	2,234	734,190	194
Capital Lease Obligations	2,666,286	575,346	71,111	3,170,521	59,136
Compensated Absences Payable	210,336	148,494	142,596	216,234	126,524
Other Postemployment Benefit Obligation	699,938	317,461	-	1,017,399	-
U. S. DOE Settlement	301	-	239	62	62
Total Business-Type Activities	**$ 4,215,099**	**$ 1,489,640**	**$ 237,736**	**$ 5,467,003**	**$ 195,336**

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. Accordingly, $7.4 million of internal service funds compensated absences are included in the above balance as of June 30, 2011. Of this amount, $3.5 million is due within one year. Also, for the governmental activities, capital leases and compensated absences are generally liquidated by the general fund.

Component Units

Changes in long-term liabilities for the fiscal year-ended June 30, 2011, are as follows (in thousands):

	Balance July 1, 2010 (Restated - Note 3)	Additions	Reductions	Balance June 30, 2011	Amounts Due Within One Year
Revenue Bonds Payable	$ 2,617,541	$ 490,050	$ 144,742	$ 2,962,849	$ 80,702
Mortgage Bonds Payable	937,915	194,235	188,945	943,205	34,400
Deferred Amount on Refunding	(388)	-	(388)	-	-
Net Unamortized Premiums	10,536	148	487	10,197	-
Total Bonds Payable	3,565,604	684,433	333,786	3,916,251	115,102
Notes and Loans Payable	411,895	128,065	97,148	442,812	36,324
Net Unamortized Premiums	(4,196)	-	(2,260)	(1,936)	-
Capital Lease Obligations	17,690	588	10,672	7,606	1,545
Compensated Absences Payable	23,395	10,301	7,673	26,023	19,229
Grand Prizes Payable	283,080	23,515	35,229	271,366	11,902
Other Liabilities	194,504	52,896	31,027	216,373	4,399
Total Component Units	**$ 4,491,972**	**$ 899,798**	**$ 513,275**	**$ 4,878,495**	**$ 188,501**

B. Bonds and Notes Payable

At June 30, 2011, 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	1.00% - 6.8%	2031	$ 16,101,200	$ 6,686,970
General Government - Refunding	2.00% -5.5%	2031	-	1,864,175
Revenue Bonds				
Transportation Projects	2.250% - 5.37%	2024	631,905	432,620
GARVEE Bonds	2.50%-5.00%	2021	1,650,000	1,299,350
Notes and Loans Payable	0%	2014	32,614	19,600
Business-Type Activities				
Revenue Bonds				
Georgia 400 Project and Higher Education Facilities	2.55% - 6.25%	2041	$ 334,915	$ 330,035
Notes and Loans Payable	4.31%	2015	735,000	734,190
Component Units				
Revenue Bonds				
University System of Georgia Foundations	.08% - 6.66%	2042	$ 2,718,175	$ 2,566,169
Other Revenue Bonds	.12% - 6.00%	2036	572,115	396,680
Mortgage Bonds				
Georgia Housing and Financing Authority	.0015% - 6.15%	2043	1,627,440	943,205
Notes and Loans Payable				
University System of Georgia Foundations	.52% - 6.19%	2041	452,280	377,010
Other Notes and Loans Payable	.59% - 6.6%	2025	147,525	65,802

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, 2011 are as follows (in thousands):

Purpose		Authorized Unissued Debt
Education	$	201,420
Transportation		250,805
Ports Authority		98,350
Board of Regents		60,800
Technical College System of Georgia		42,165
Other		53,750
Total	**$**	**707,290**

Defeasance and Refunding of General Obligation Bonds

On October 27, 2010 the State utilized the premium from the series 2010B and series 2010C-1 bonds to pre-pay $34.8 million of outstanding general obligation bonds due on November 1, 2010; this provided budgetary relief to the fiscal year 2011 budget cycle.

This refunding provided an equal amount of debt service savings to fiscal year 2011. As of June 30, 2011, the State had total outstanding refunded bonds held in escrow of $1.3 billion and total outstanding defeased general obligation bonds held in escrow of $2.1 million.

Early Retirement of Debt

There was no early retirement of debt during Fiscal 2011.

D. Revenue Bonds

Governmental Activities

The State Road and Tollway Authority 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 the State Road and Tollway Authority. Further, the State of Georgia has guaranteed the full payment of the bonds and the interest.

The State Road and Tollway Authority has issued Federal Highway Grant Anticipation Revenue Bonds and Federal Highway Reimbursement Bonds (GARVEEs). These bond proceeds will be used for the purpose of providing funds for an approved land public transportation project.

Business-Type Activities

The State Road and Tollway Authority has issued Toll Revenue Bonds for the purpose of financing a portion of the costs of acquiring, constructing and maintaining the Georgia 400 project. The toll revenues to be generated from the usage of the Georgia 400 Project secure these bonds. As of June 30, 2011, the outstanding principal balance for these Toll Revenue Bonds was $37.1 million.

The Georgia Higher Education Facilities Authority (Authority) 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. The bond proceeds were loaned to the University System of Georgia Foundation, Inc. (Foundation) (component unit) and are expected to be repaid with repayments of the proceeds from the Foundation. The Foundation's obligation to the Authority is included in notes and loans payable in the Foundation's financial statements. See the Notes and Loans Payable section of this note. As of June 30, 2011, the outstanding principal for these revenue bonds is $292.9 million.

Component Units

Revenue bonds issued by various University System of Georgia Foundations, for the acquisition and improvement of properties and facilities, had an outstanding balance at June 30, 2011 of $2.6 billion.

Other component units had Revenue Bonds Payable outstanding at June 30, 2011 of $396.7 million as detailed below (in thousands):

	Amount
Georgia Environmental Finance Authority	$ 226.1
Georgia World Congress Center	121.9
Georgia Ports Authority	35.6
Lake Lanier Islands Developmental Authority	9.1
Regional Educational Service Agencies	4.0
Total	**$ 396.7**

E. Mortgage Bonds

Component Units

Mortgage bonds outstanding of $943.2 million at June 30, 2011 were issued by the Georgia Housing and Finance Authority for financing the purchase of single-family mortgage loans for eligible persons and families of low and moderate income within the State of Georgia.

F. Notes and Loans Payable

Governmental Activities

Notes and Loans Payable for Governmental Activities as of June 30, 2011 was $19.6 million, attributable to the Georgia Department of Transportation'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 is due August 6, 2013.

Business-Type Activities

Notes and Loans Payable for Business-Type Activities as of June 30, 2011 was $734.2 million. During fiscal year 2011, the State borrowed an additional $312.0 million from the U.S. Treasury to pay state unemployment benefits. Combined with the $416.0 million the State borrowed in fiscal year 2010, the total principal balance owed to the U.S. Treasury at June 30, 2011 is $728.0 million. Georgia is one of thirty-six states that borrowed from the U.S. Treasury to pay state unemployment benefits. Georgia will be required to repay this loan to the Treasury at a future date. A repayment plan has not yet been implemented. There were no repayments made during fiscal year 2011. In addition, the Georgia Military College had a note payable of $6.2 million.

Component Units

Notes and Loans Payable for Component Units as of June 30, 2011 were as follows (in thousands):

	Amount
Higher Education Foundations	$ 351.9
Georgia Ports Authority	40.9
Georgia Tech Foundation, Inc.	25.1
Lake Lanier Islands Development Authority	13.5
Georgia Development Authority	4.9
North Georgia Mountains Authority	4.9
Jekyll Island State Park Authority	1.6
Total Notes and Loans Payable	**$ 442.8**

Higher Education Foundations Notes and Loans

The University System of Georgia Foundation, Inc. has entered into loan agreements to finance construction of facilities at colleges and universities in the University System of Georgia on real estate owned by the Board of Regents. The total principal outstanding at June 30, 2011 was $292.9 million. See the Revenue Bonds – Business-Type Activities section of this note.

The Medical College of Georgia Physician's Practice Group Foundation's Cancer Research Center, LLC (CRC) has a loan agreement with the Development Authority of Richmond County (the Authority), 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 Medical College of Georgia. As of June 30, 2011, $29.4 million was outstanding on the loan payable. The loan agreement provides for semi-annual interest payments at interest rates ranging from 3.0 to 5.0 percent. Principal payments are due annually through December 2034.

Notes and loans payable included a revolving credit agreement for the University of Georgia's Research Foundation which provides for borrowings or letters of credit at the Research Foundation's option. At June 30, 2011, amounts outstanding or issued under this agreement included borrowings of $10.3 million, with no letters of credit or bank reserves, resulting in $39.7 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 percent. At June 30, 2011, the rate applicable to the borrowings was .991 percent.

During the year ended June 30, 2011, the Kennesaw State University Foundation entered into a term note with a bank to refinance a portion of the line of credit for previous land purchases that matured in August, 2010. The note accrues interest at the 30-day LIBOR plus 2.5 percent with interest payments monthly. The note matures December 2011, with the entire principal balance and remaining interest balance due at that time. The note is collateralized by buildings and land. The balance on the note was $5.2 million at June 30, 2011. During the year ended June 30, 2010, the Foundation secured lines of credit of $22 million and $26.9 million to provide financing for land purchases, a hospitality facility and sports complex. The lines of credit bear interest at 30 day LIBOR plus 2 percent and 1.26 percent, respectively and matured in October 2010. Additionally, during 2011, the Foundation renewed an unsecured operating line of credit of $5.3 million. The line of credit bears interest at the 30-day LIBOR plus 1.75 percent. The line of credit balance as of June 30, 2011 was $1.6 million.

During the 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 .325%. The balance on this note at June 30, 2011 was $5.9 million. Additionally, during 2002, the Foundation signed a $.9 million promissory loan agreement which was increased during 2002 to $1.1 million. This agreement expires on May 1, 2012. Interest is charged at the bank's 30-day LIBOR rate plus .45%. The balance on this note at June 30, 2011 was $.8 million.

In addition to the notes and loans discussed in the previous paragraphs, as of June 30, 2011 an additional $5.8 million in notes were 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 million. As of June 30, 2011, $40.9 million was outstanding on this line of credit. The interest rate (.59 percent at June 30, 2011) 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 million revolving lines of credit. As of June 30, 2011, $25.1 million was outstanding on these lines of credit. Interest is calculated using the 30-day LIBOR rate plus 0.60 percent.

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 Investments.

H. Pollution Remediation

Governmental Activities

Georgia Department of Transportation

The Georgia Department of Transportation has recorded liabilities totaling $548,546 at June 30, 2011 for pollution remediation related to underground storage tanks at four 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 $48,024. Pollution remediation liability activity in fiscal year 2011 was as follows (in thousands):

Balance July 1, 2010	Additions	Reductions	Balance June 30, 2011	Amounts Due Within One Year
$835	-	$287	$548	$195

Business-Type Activities

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 $925,631. The liability was determined using a 5 year budget estimate provided by environmental engineers & consultants. 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 year 2011 was as follows (in thousands):

Balance July 1, 2010	Additions	Reductions	Balance June 30, 2011	Amounts Due Within One Year
$963	$97	$134	$926	$119

Georgia Institute of Technology

Georgia Institute of Technology (Institute) is responsible for pollution remediation, including asbestos abatement, for all Institute facilities. Asbestos abatement is performed during renovation/construction projects when deemed necessary by Institute management. As of June 30, 2011, the Institute recorded a liability and expense in the amount of $195,387 for asbestos abatement projects in various Institute structures. 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 year 2011 was as follows (in thousands):

Balance July 1, 2010	Additions	Reductions	Balance June 30, 2011	Amounts Due Within One Year
$ 299	$ 196	$ 299	$ 196	$ 196

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
2012	$ 739,460	$ 382,679	$ 29,170	$ 20,526	$ 122,560	$ 62,635	$ 5,000	$ -
2013	698,905	345,802	29,035	19,730	128,930	56,781	10,600	-
2014	643,110	311,883	25,780	18,376	134,530	50,714	4,000	-
2015	633,080	280,524	21,525	17,283	141,150	44,095	-	-
2016	566,550	250,109	38,045	15,956	147,640	37,607	-	-
2017-2021	2,575,095	872,665	221,060	48,926	624,540	81,401	-	-
2022-2026	1,862,930	373,552	68,005	5,214	-	-	-	-
2027-2031	832,015	68,135	-	-	-	-	-	-
Total	**$ 8,551,145**	**$ 2,885,349**	**$ 432,620**	**$ 146,011**	**$ 1,299,350**	**$ 333,233**	**$ 19,600**	**$ -**

Business-Type Activities

	Revenue Bonds		Notes and Loans Payable	
Year	Principal	Interest	Principal **	Interest
2012	$ 9,420	$ 16,078	$ 194	$ 267
2013	9,895	15,816	203	258
2014	10,325	15,523	212	249
2015	10,790	15,198	5,580	239
2016	11,285	14,840	-	-
2017-2021	36,755	69,314	-	-
2022-2026	42,045	60,822	-	-
2027-2031	54,920	48,830	-	-
2032-2036	72,335	32,032	-	-
2037-2041	72,265	10,313	-	-
Total	**$ 330,035**	**$ 298,766**	**$ 6,189**	**$ 1,013**

* Includes $273.2 million of bonds with variable interest rates based on the weekly rate determination of the Remarketing Agent. The interest rate at June 30, 2011, for these variable rate bonds was as follows: 2.0% for $91.1 million, 1.0% for $91.1 million and 1.0% for $91.1 million.

** The note payable to the U.S. Treasury for $728.0 million to state unemployment benefits has not been included in this schedule. A repayment schedule has not yet been implemented.

Component Units

Year	University System of Georgia Foundations Revenue Bonds Principal	University System of Georgia Foundations Revenue Bonds Interest	Other Component Units Revenue Bonds Principal	Other Component Units Revenue Bonds Interest	Georgia Housing and Finance Authority Mortgage Bonds Principal	Georgia Housing and Finance Authority Mortgage Bonds Interest
2012	$ 50,707	$ 114,359	$ 29,995	$ 12,752	$ 34,400	$ 37,180
2013	55,915	111,814	23,054	15,565	21,710	36,149
2014	61,985	110,828	33,458	14,875	22,280	35,447
2015	66,215	108,216	13,608	13,999	19,785	34,725
2016	69,849	105,372	37,710	13,150	23,655	33,972
2017-2021	401,861	475,662	253,120	104,526	149,405	151,916
2022-2026	498,493	375,580	4,199	870	153,785	116,850
2027-2031	602,038	245,844	1,536	93	161,130	79,972
2032-2036	492,557	112,618	-	-	176,050	40,035
2037-2041	255,614	27,809	-	-	86,505	7,328
2042-2046	10,935	237	-	-	94,500	2,336
Total	**$ 2,566,169**	**$ 1,788,339**	**$ 396,680**	**$ 175,830**	**$ 943,205**	**$ 575,910**

Year	University System of Georgia Foundations Notes and Loans Payable Principal	University System of Georgia Foundations Notes and Loans Payable Interest	Other Component Units Notes and Loans Payable Principal	Other Component Units Notes and Loans Payable Interest
2012	$ 30,020	$ 17,493	$ 8,704	$ 965
2013	15,517	16,936	6,764	779
2014	5,464	16,591	5,399	656
2015	16,176	16,367	3,252	469
2016	6,231	16,110	3,285	436
2017-2021	40,834	75,264	33,814	1,649
2022-2026	48,237	65,206	4,584	630
2027-2031	62,521	51,562	-	-
2032-2036	79,745	32,770	-	-
2037-2041	72,265	10,314	-	-
Total	**$ 377,010**	**$ 318,613**	**$ 65,802**	**$ 5,584**

Notes continued on the next page.

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 $45.1 million, $40.1 million, and $17.8 million, respectively, for the year ended June 30, 2011. Future minimum commitments for operating leases as of June 30, 2011, are listed below (in thousands).

	Primary Government		
	Governmental Activities	Business-Type Activities	Component Units
Fiscal Year Ended June 30			
2012	$ 27,738	$ 36,485	$ 16,329
2013	17,846	12,892	14,111
2014	10,158	8,129	13,266
2015	4,568	7,418	12,563
2016	2,401	10,057	11,715
2017-2021	4,196	14,334	57,969
2022-2026	707	9,381	38,871
2027-2031	95	6,867	34,080
2032-2036	7	1,033	14,611
2037-2041	-	212	1,089
2042-2046	-	-	357
Total Minimum Commitments	**$ 67,716**	**$ 106,808**	**$ 214,961**

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 of Georgia. 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 of Georgia. At June 30, 2011, the historical cost of assets acquired through capital leases was as follows (in thousands):

	Primary Government		
	Governmental Activities	Business-Type Activities	Component Units
Land	$ 3,460	$ 49,777	$ 7,583
Infrastructure	-	-	-
Buildings	346,856	3,456,560	56,531
Improvements Other Than Buildings	-	84,157	-
Machinery and Equipment	2,754	73,858	283
Software	-	-	-
Less: Accumulated Depreciation	(184,476)	(411,965)	(12,637)
Total Assets Held Under Capital Lease	**$ 168,594**	**$ 3,252,387**	**$ 51,760**

At June 30, 2011, future commitments under capital leases were as follows (in thousands):

	Primary Government		
	Governmental Activities	Business-Type Activities	Component Units
Fiscal Year Ended June 30			
2012	$ 47,302	$ 223,341	$ 1,909
2013	44,796	227,180	1,288
2014	37,775	230,440	1,226
2015	35,258	231,335	1,127
2016	27,507	283,912	903
2017-2021	106,200	1,194,388	2,064
2022-2026	54,070	1,207,616	120
2027-2031	35,900	1,153,765	120
2032-2036	12,645	853,960	120
2037-2041	2,438	382,706	120
2042-2046	30	4,964	120
2047-2051	30	-	120
2052-2056	30	-	120
2057-2061	18	-	72
Total Capital Lease Payments	403,999	5,993,607	9,429
Less: Interest and Executory Costs	(180,570)	(2,823,086)	(1,823)
Present Value of Capital Lease Payments	**$ 223,429**	**$ 3,170,521**	**$ 7,606**

The capital leases of the Business-Type Activities include $1.6 billion of leases payable to higher education foundations (component units). The component units report the receivable balances as Accounts Receivable – Other.

C. Lease Receivables

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 $8.2 million, $51.8 thousand, and $43.8 million, respectively, for the year ended June 30, 2011. Minimum future revenues and rentals to be received under operating leases as of June 30, 2011, are as follows (in thousands):

	Primary Government		
Fiscal Year Ended June 30	Governmental Activities	Business-Type Activities	Component Units
2012	$ 8,275	$ 49	$ 44,692
2013	8,303	1	23,067
2014	8,417	-	22,537
2015	8,535	-	22,300
2016	8,654	-	22,184
2017-2021	32,840	-	97,084
2022-2026	4,025	-	89,996
2027-2031	3,739	-	83,962
2032-2036	3,916	-	50,568
2037-2041	4,136	-	20,787
2042-2046	3,041	-	2,326
2047-2051	31	-	1,967
2052-2056	-	-	114
Total Minimum Revenues	**$ 93,912**	**$ 50**	**$ 481,584**

Notes continued on the next page.

NOTE 10 - RETIREMENT SYSTEMS

The State administers various retirement plans under two major retirement systems: Employees' Retirement System of Georgia (ERS System) and Teachers Retirement System of Georgia. 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.

Plan Descriptions and Contribution Information

Employees' Retirement System of Georgia

The ERS System is comprised of individual retirement systems and plans covering substantially all employees of the State except for teachers and other employees covered by the Teachers Retirement System of Georgia. One of the ERS System plans, the Employees' Retirement System of Georgia (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 of Georgia 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.

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, 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 2011 were based on the June 30, 2008 actuarial valuation for the old and new plans and were set by the Board of Trustees on September 18, 2008 for GSEPS as follows:

Old Plan *	10.41%
New Plan	10.41%
GSEPS	6.54%

* 5.66% 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

The 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 active and retired members and ex-officio State employees 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 Internal Revenue Code (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 the fiscal year ended June 30, 2011 were 5.53% of annual salary. Employer contributions required for fiscal year 2011 were 10.28% of annual salary as required by the June 30, 2008 actuarial valuation.

The following table summarizes the State's employer contributions by defined benefit plan for the fiscal years ended June 30, 2011, 2010, and 2009 (dollars in thousands):

	ERS		TRS	
	Required Contribution	Percent Contributed	Required Contribution	Percent Contributed
2011	$ 222,401	100%	$ 170,893	100%
2010	$ 236,656	100%	$ 161,184	100%
2009	$ 258,307	100%	$ 147,863	100%

In addition to the above contributions for employees of organizations in the State reporting entity, the State Departments of Revenue (DOR) and Education (DOE) are also responsible for making contributions to ERS or TRS on behalf of certain employers that are not in the reporting entity. The DOE made contributions to TRS of $5.9 million for each fiscal year presented for public school support personnel. The DOR made an $11.0 million contribution to ERS for local tax officials in fiscal year 2011 to cover both fiscal years 2010 and 2011 combined.

We have determined that in certain prior fiscal years, the DOR did not contribute its full requirement for the local tax officials group because adequate funds were not appropriated. The cumulative contribution shortfall for the period from 1997 to 2000 and for fiscal year 2009 amounted to $6.2 million. The State expects to fund this obligation over a ten-year period through higher contribution rate assessments to the DOR in the amount of $616 thousand each fiscal year. The higher assessments will begin in fiscal year 2013.

The number of participating employers by plan as of June 30, 2011 was:

ERS	737
TRS	399

These counts treat each legal entity in the State reporting entity as separate employers. Of the 737 employers in the ERS count, 442 are not in the State of Georgia reporting entity. Of the 399 employers in the TRS count, 296 are not in the State of Georgia reporting entity.

GSEPS 401(k) Defined Contribution Component

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 ERS System and was established by the State of Georgia Employee Benefit Plan Council in accordance with State law and Section 401(k) of the Internal Revenue Code. 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. Employees can elect to contribute up to an additional 4% and the State will match 50% of the additional 4% of salary. Therefore, the State will match 3% against the employee's 5% total savings. Contributions greater than 5% 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 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 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. Distributions are made in installments or in a lump sum.

In 2011, the State's employer and employee GSEPS contributions were $3.2 million and $5.0 million, respectively. Additionally, the State made contributions of about $785 thousand on-behalf of employers that are not in the reporting entity.

Summary of Significant Accounting Policies

Basis of Accounting
The ERS and TRS financial statements are prepared on the accrual basis of accounting. Contributions from the plan members are recognized as additions in the period in which the members provide services and are due. Employer contributions are recognized when due, pursuant to formal commitments, as well as statutory or contractual requirements. Retirement 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 assets available for pension benefits.

Funded Status and Funding Progress

The funded status of the ERS and TRS plans at June 30, 2010, the most recent actuarial valuation date, is as follows (dollars in thousands):

Retirement System	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) --Entry Age	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a) / (b)	Annual Covered Payroll	UAAL as a Percentage of Covered Payroll (b-a) / (c)
	(a)	*(b)*			*(c)*	
ERS	$ 13,046,193	$ 16,295,352	$ 3,249,159	80.1%	$ 2,571,042	126.4%
TRS	$ 54,529,416	$ 63,592,037	$ 9,062,621	85.7%	$ 10,437,703	86.8%

These valuations reflect revised assumptions based on experience studies for the five-year period ending June 30, 2009. Additionally, the TRS Board has adopted 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 7.50% 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 TRS Board adopted a refinement to this method on July 27, 2011 to include a corridor around the long-term investment rate of return. At the same time, the TRS Board adopted a change to the asset smoothing methodology by adding a corridor that 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 ERS 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	June 30, 2010	June 30, 2010
Actuarial cost method	Entry age	Entry age
Amortization method	Level percent of pay	Level percent of pay
Remaining amortization period	30 years	30 years
Period Open/Closed	Open	Open
Asset valuation method	7-year smoothed	7-year smoothed
Actuarial assumptions:		
Investment rate of return, initial	N/A	8.09%*#
Investment rate of return, ultimate	7.50%*	7.50%*
Projected salary increases	0.00% for FY 2011	3.75 - 7.00%*
	2.725 - 4.625%* for FY 2012-2013	
	5.45 - 9.25%* for FY 2014+	
Postretirement cost of living adjustment	None	3.00% annually

* Includes an inflation assumption of 3.00%

\# Initial rate of return limited by corridor to achieve maximum 7.84% average return over 40 year period

Regents Retirement Plan

Plan Description

The Regents Retirement Plan, a single-employer defined contribution plan, is an optional retirement plan established by the General Assembly of Georgia in Chapter 21 of Title 47 of the OCGA. It is administered and may be amended by the Board of Regents of the University System of Georgia (Proprietary Fund – Higher Education). Under the plan, eligible faculty members or principal administrators may purchase annuity contracts for the purpose of receiving retirement and death benefits. The four approved vendors (AIG-VALIC, American Century, Fidelity, and TIAA-CREF) have separately issued financial reports, which 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 Teachers Retirement System of Georgia Board of Trustees in accordance with State statute and as advised by their independent actuary. For fiscal year 2011, the employer contribution was 9.24% of the participating employee's earnable compensation. Employees contribute 5% of their earnable compensation. Amounts attributable to all plan contributions are fully vested and non-forfeitable at all times. In 2011, employer and employee contributions were $94.5 million (9.24%) and $51.2 million (5%), respectively.

Notes continued on the next page.

NOTE 11 - POSTEMPLOYMENT BENEFITS

The State provides the following significant other postemployment benefit (OPEB) plans:

Administered by the Department of Community Health
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 ERS System
State Employees' Assurance Department – OPEB

Administered by the University System Office (Board of Regents)
Board of Regents Retiree Health Benefit Fund

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.

Retiree health benefits were previously funded through the Georgia Retiree Health Benefit Fund (GRHBF). In 2009, the General Assembly revisited the GRHBF and enacted legislation that, effective August 31, 2009, separated the GRHBF into two new funds: the Georgia School Personnel Post-employment Health Benefit Fund and the Georgia State Employees Post-employment Health Benefit Fund. The purpose of this change was to assure employers responsible for planning and funding future retiree health costs that their contributions would be dedicated to their respective retiree populations. Funds in the GRHBF were transferred to the Georgia State Employees Post-employment Health Benefit Fund or the Georgia School Personnel Post-employment Health Benefit Fund as described in the plan financial statements. The statute that created the GRHBF was repealed effective September 1, 2010.

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.

Plan Descriptions and Contribution Information

State OPEB Fund and School OPEB Fund
The State OPEB Fund is a cost-sharing multiple-employer defined benefit postemployment healthcare plan that covers eligible former employees of State organizations (including technical colleges) and other entities authorized by law to contract with the Department of Community Health for inclusion in the plan. The State OPEB Fund provides health insurance benefits to eligible former employees and their qualified beneficiaries through the health insurance plan for State employees.

The School OPEB Fund is a cost-sharing multiple-employer defined benefit postemployment healthcare plan that covers the postemployment health benefits which are due under the group health plan for public school teachers (including librarians and other certificated employees of public schools and regional educational service agencies) or due under the group health plan for non-certificated public school employees. The plan covers eligible former employees and their qualified beneficiaries.

The 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 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. On average, plan members pay approximately 25 percent of the cost of the health insurance coverage.

Participating employers 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 thirty years.

The combined required contribution rates established by the Board for the active and retiree plans for the fiscal year ended June 30, 2011 were as follows:

	% of Covered Payroll		
	Combined Active and State OPEB Fund	*Combined Active and School OPEB Fund	
June 2010	22.165%	18.534%	for July Coverage
July 2010 – April 2011	25.586%	21.955%	for August – May Coverage
May 2011 – June 2011	22.667%	1.429%	for June – July Coverage

* The above school rates are for certificated teachers, librarians, regional educational service agencies, and certain other eligible participants. For non-certificated school personnel, the school plan direct employer contribution rates per member per month (combined active and retiree) were $162.72 for July – December 2010 coverage, $218.20 for January – May 2011 coverage, and $246.20 for June 2011 coverage. Additionally, the State Department of Education was appropriated $25.1 million for on-behalf payments of health insurance for non-certificated school personnel.

No additional contribution was required by the Board for fiscal year 2011 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 other postemployment benefits 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, 2011, 2010, and 2009 were (dollars in thousands):

	State OPEB Fund		School OPEB Fund	
	State Employer Required Contribution	Percent Contributed	State Employer Required Contribution	Percent Contributed
2011	$ 147,749	100%	$ 1,682	100%
2010 *	$ 19,516	100%	$ 1,535	100%
2009	$ 150,756	100%	$ 1,571	100%

* Employer contributions to the State OPEB Fund were lower in fiscal year 2010 because claims were paid from existing plan assets in that year.

In addition to the above OPEB contributions for former employees of organizations in the State reporting entity, a portion of the contribution made to the State Health Benefit Plan by the State Department of Education on behalf of employers of non-certificated school personnel was transferred to the School OPEB Fund. The on-behalf amounts transferred for 2011, 2010, and 2009 were $293 thousand, $258 thousand, and $5.1 million respectively.

State Employees' Assurance Department – OPEB
State Employees' Assurance Department – OPEB (SEAD-OPEB) is a cost-sharing multiple-employer defined benefit postemployment plan that was created in fiscal year 2007 by the Georgia General Assembly to provide term life insurance to retired and vested inactive members of Employees' (ERS), Judicial (JRS), and Legislative (LRS) Retirement Systems. Eligibility was amended to exclude GSEPS members of ERS effective January 1, 2009 and to exclude members of JRS and LRS hired on or after July 1, 2009. Pursuant to Title 47 of the OCGA, the authority to establish and amend the benefit provisions of the plan is assigned to the Boards of Trustees (Trustees) of the Employees' and Judicial Retirement Systems.

Contributions by plan members are established by the Trustees, up to the maximum allowed by statute (not to exceed 0.5% of earnable compensation). The Trustees establish employer contribution rates, such rates which, when added to members' contributions, shall not exceed 1% of earnable compensation. For the fiscal year ended June 30, 2011, contributions of ERS "old plan" members were 0.45% of earnable compensation, 0.22% of which was paid by the employer. Contributions of ERS "new plan" members and of members of the Judicial and Legislative Retirement Systems were 0.23% of earnable compensation. There were no employer annual required contributions (ARC) for the fiscal years ended June 30, 2011, 2010, and 2009.

Board of Regents Retiree Health Benefit Fund
The Board of Regents Retiree Health Benefit Fund (Regents Plan) is a single-employer, defined benefit postemployment healthcare plan administered by the Board of Regents. 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 Board of Regents of the University System of Georgia (college and university fund) has established group health and life insurance programs for regular employees of the University System. It is the policy of the Board of Regents to permit employees of the University System eligible for retirement or that become permanently and totally disabled to continue as members of the group health and life insurance programs. The policies of the Board of Regents of the University System of Georgia 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 Board of Regents. 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 Board designation. Organizational units of the Board of Regents of the University System pay the employer portion for health insurance for eligible retirees. The employer portion of health insurance for its eligible retirees is based on rates that are established annually by the Board of Regents for the upcoming plan year. For the 2011 plan year, the employer rate was approximately 70% of the total health insurance cost for eligible retirees and the retiree rate was approximately 30%. With regard to life insurance, 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 other postemployment benefit cost (expense) for the Regents Plan is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 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 thirty 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 2011, 2010 and 2009 (dollars in thousands):

	Fiscal Year Ended June 30, 2011	Fiscal Year Ended June 30, 2010	Fiscal Year Ended June 30, 2009
Annual required contribution	$ 411,500	$ 381,700	$ 349,500
Interest on net OPEB obligation	31,500	17,800	7,100
Adjustment to annual required contribution	(45,300)	(25,200)	(9,500)
Annual OPEB cost (expense)	397,700	374,300	347,100
Less: Contributions made	(80,200)	(69,900)	(68,100)
Increase in net OPEB obligation	317,500	304,400	279,000
Net OPEB obligation - beginning of year	699,900	395,500 *	158,200
Net OPEB obligation - end of year	**$ 1,017,400**	**$ 699,900**	**$ 437,200**
Percentage of annual OPEB cost contributed	**20.2%**	**18.7%**	**19.6%**

* The fiscal year 2010 beginning of year balance was restated due to a correction in the split between retiree and active employee claims which increased reported employer contributions by $41.7 million.

Funded Status and Funding Progress – OPEB Plans

The funded status of each plan as of the most recent actuarial valuation date is as follows (dollars 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	6/30/2010	$ 186	$ 4,478,594	$ 4,478,408	0.0%	$ 2,626,081	170.5%
School OPEB	6/30/2010	$ 58	$ 11,250,400	$ 11,250,342	0.0%	$ 11,446,504	98.3%
SEAD-OPEB	6/30/2010	$ 680,449	$ 691,001	$ 10,552	98.5%	$ 2,401,974	0.4%
Regents Plan	7/1/2010	$ 123	$ 3,384,100	$ 3,383,977	0.0%	$ 2,432,367	139.1%

The number of participating employers for the multiple-employer postretirement benefit plans as of June 30, 2011 was:

State OPEB	219
School OPEB	251
SEAD-OPEB	833

The SEAD-OPEB count treats each legal entity in the State reporting entity as a separate employer. Of the 833 employers in the SEAD-OPEB count, 534 are not in the State of Georgia reporting entity.

Actuarial Methods and Assumptions

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 estimates are made about the future. The State, School and SEAD-OPEB valuations as of June 30, 2010 reflect revised assumptions based on experience studies 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 & School OPEB	SEAD-OPEB	Regents Plan
Valuation date	June 30, 2010	June 30, 2010	July 1, 2010
Actuarial cost method	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
Amortization method	Level percentage of pay, open	Level dollar, open	Level dollar over 30 years, closed
Remaining amortization period	30 years	30 years	27 years
Asset valuation method	Market Value	Market Value	Market Value
Actuarial assumptions:			
Investment rate of return	4.50%*	7.50%*	4.50%**
Healthcare cost trend rate - initial		n/a	8.25%**
Pre-Medicare eligible	9.00%*		
Medicare eligible	8.50%*		
Ultimate trend rate		n/a	4.50%
Pre-Medicare eligible	5.00%		
Medicare eligible	5.00%		
Year of ultimate trend rate	2018	n/a	2027

* Includes an inflation assumption of 3.00%
** Includes an inflation assumption of 2.50%

Notes continued on the next page.

NOTE 12 - RISK MANAGEMENT

A. Public Entity Risk Pool

The Department of Community Health administers the State Health Benefit Plan for the State. Participants include State agencies, component units, participating county governments and local educational agencies. This plan is funded by participants covered in the pool, by employer and employee contributions, and appropriations from the General Assembly of Georgia. The Department of Community Health has contracted with Cigna and UnitedHealthcare to process claims in accordance with the State Health Benefit Plan as established by the Board of Community Health.

B. Board of Regents Employee Health Benefits Plan

The Board of Regents of the University System of Georgia 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 Board of Regents and its organizational units. All units of the University System of Georgia share the risk of loss for claims of the plan.

The Board of Regents has contracted with Blue Cross Blue Shield of Georgia to process all claims in accordance with guidelines as established by the Board of Regents and Medco Health Solutions to administer the prescription drug plan.

C. Other Risk Management

The 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, 2011, of $397.4 million both for workers' compensation and liability was charged back to the contributing funds. Expenditures of $276.2 million are reported in the General Fund, and expenses of $89.9 million are reported in the Higher Education (enterprise) Fund relating to this charge-back.

D. Claims Liabilities

A reconciliation of total claims liabilities for fiscal years ended June 30, 2011, and 2010, is shown below (in thousands):

	Public Entity Risk Pool		Board of Regents Employee Health Benefits Plan		Risk Management Fund	
	Fiscal Year Ended June 30, 2011	Fiscal Year Ended June 30, 2010	Fiscal Year Ended June 30, 2011	Fiscal Year Ended June 30, 2010	Fiscal Year Ended June 30, 2011	Fiscal Year Ended June 30, 2010
Unpaid Claims and Claim Adjustments July 1	$ 215,454	$ 212,158	$ 15,654	$ 21,828	$ 444,746	$ 403,851
Current Year Claims and Changes in Estimates	2,108,482	2,181,811	239,141	181,684	152,367	169,540
Claims Payments	(2,123,800)	(2,178,515)	(231,506)	(187,858)	(125,921)	(128,645)
Unpaid Claims and Claim Adjustments June 30	**$ 200,136**	**$ 215,454**	**$ 23,289**	**$ 15,654**	**$ 471,192**	**$ 444,746**

Notes continued on the next page.

NOTE 13 - DERIVATIVE INSTRUMENTS

Derivative Instruments are utilized by some of the Component Unit higher education foundations and consist primarily of interest rate swap agreements. Certain foundations have elected to apply Financial Accounting Standards Board (FASB) provisions 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 Long-Term Liabilities - Component Units section.

Component Unit – GASB Organizations

The fair value balances and notional amounts of hedging derivative investments outstanding as reported in the fiscal year 2011 financial statements for foundations electing GASB provisions are as follows:

	Change in Fair Value		Fair Value at June 30, 2011		
	Classification	Amount	Classification	Amount	Notional
Component unit activities - GASB					
Cash flow hedges:					
Georgia Tech Athletic Association					
	Deferred outflow of resources	$ 1,346,871	Debt	$ (12,090,795)	$ 94,285,000
University of Georgia Athletic Association, Inc.					
2001 - Interest Rate Swap[1]	Deferred outflow of resources	(4,763,915)	Debt	-	-
2003 - Interest Rate Swap	Deferred outflow of resources	(420,035)	Debt	(1,708,890)	16,436,111
2005A - Interest Rate Swap	Deferred outflow of resources	(280,571)	Debt	(1,632,750)	12,405,000
2005B - Interest Rate Swap	Deferred outflow of resources	(794,588)	Debt	(3,209,674)	26,950,000
				$ (18,642,109)	
Investment Derivative Instruments:					
University of Georgia Research Foundation[2]					
	Investment revenue	(47,923)	Debt	-	-

[1]The University of Georgia Athletic Association, Inc. executed the termination of the Swap associated with the 2001 Series Bonds.

[2]The University of Georgia Research Foundation elected GASB provisions in 2011.

The fair value balances and notional amounts of hedging derivative instruments outstanding at June 30, 2010, and the changes in fair value of such derivative instruments for the year then ended as reported in the fiscal year 2010 financial statements for foundations electing GASB are as follows:

	Change in Fair Value		Fair Value at June 30, 2010		
	Classification	Amount	Classification	Amount	Notional
Component unit activities - GASB					
Cash flow hedges:					
Georgia Tech Athletic Association					
	Deferred outflow of resources	$ (1,921,639)	Debt	$ (10,743,924)	$ 94,285,000
University of Georgia Athletic Association, Inc.					
2001 - Interest Rate Swap	Deferred outflow of resources	(1,584,259)	Debt	(4,763,915)	33,100,000
2003 - Interest Rate Swap	Deferred outflow of resources	(671,636)	Debt	(2,128,925)	17,030,556
2005A - Interest Rate Swap	Deferred outflow of resources	(466,203)	Debt	(1,913,321)	13,385,000
2005B - Interest Rate Swap	Deferred outflow of resources	(1,202,381)	Debt	(4,004,262)	27,620,000
				$ (23,554,347)	

A. Interest Rate Swap Derivatives – GASB Organizations

University of Georgia Athletic Association (Association)

The fair value balances and notional amounts of hedging derivative investments outstanding as reported in the fiscal year 2011 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 we deem 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, the Association entered into three separate interest rate swap transactions with Bank of America, N.A. (the Counterparty) relating to its variable rate tax-exempt Series 2001 Bonds, tax-exempt Series 2003 Bonds, taxable Series 2005 Bonds, and tax-exempt Series 2005B Bonds. Pursuant to an ISDA Master Agreement and Schedule to ISDA Master Agreement each dated as of January 27, 2005, between the Association and the Counterparty and three Confirmations, the Association has agreed to pay to the Counterparty a fixed rate of interest in an amount equal to: (1) 3.49% per annum multiplied by a notional amount that is equal to the principal amount of the Series 2001 Bonds until September 2021; (2) 3.38% per annum multiplied by a notional amount that is equal to the principal amount of the Series 2003 Bonds until August 2033; (3) 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 (4) 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 the Association 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 2001 Bonds until September 2021; (2) 67% of LIBOR multiplied by a notional amount that is equal to the principal amount of the Series 2003 Bonds until August 2033; (3) LIBOR multiplied by a notional amount that is equal to the principal amount of the Series 2005 Bonds until July 2021; and (4) 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 - The Association 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 the Association's making or receiving a termination payment.

On April 8, 2011, the Association executed the termination of the interest rate swap agreement on the 2001 Series Bonds at a cost of $3,308,664 to the Association. This termination was done in anticipation of the redemption of the 2001 Series Bonds on June 7, 2011. This amount was deferred and amortized over the life of the 2011 Bond Series.

As of June 30, 2011, the fair value of the interest rate swap agreement on the 2003 Series Bonds was $(1,708,890), indicating the amount that the

Association would be required to pay the Counterparty to terminate the swap agreement.

As of June 30, 2011, the fair value of the interest rate swap agreement on the 2005A Series Bonds was $(1,632,750), indicating the amount that the Association would be required to pay the Counterparty to terminate the swap agreement.

As of June 30, 2011, the fair value of the interest rate swap agreement on the 2005B Series Bonds was $(3,209,674), indicating the amount that the Association would be required to pay the Counterparty to terminate the swap agreement.

Credit Risk - As of June 30, 2011, the fair value of the swaps represents the Association'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, the Association could see a possible gain equivalent to $22.1 million less the cumulative fair value of $6.6 million. As of June 30, 2011, the Counterparty was rated as follows by Moody's and S&P:

	Moody's	S&P
Bank of America, N.A.	Aa3	A+

Basis Risk - The swaps expose the Association 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. The Association 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. The Association would also be 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 International Swap Dealers Association Master Agreement, which includes standard termination events, such as failure to pay and bankruptcy. The Association 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 the Association would be liable to the Counterparty for a payment equal to the swap's fair value.

<u>Georgia Tech Athletic Association (Association)</u>

In 2004, the Association received an up-front payment of $2,367,000 for a “swaption” related to its fixed rate Series 2001 bonds. The swaption is an option that allows the Counterparty to force the Association to enter into a pay-fixed, receive-variable interest rate swap on April 1, 2012. The Association would expect to issue variable-rate refunding bonds if the option is exercised by the Counterparty. The transaction, which is effectively a synthetic refunding of the 2001 bonds, represents 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 has the option to exercise the agreement on April 1, 2012 with an additional premium payment to the Association totaling $773,137. If the option is exercised, the swap will 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, will 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 and 2010, the swap had a negative fair value of $12,090,795 and $10,743,924, respectively, 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 and $13,892,865 at June 30, 2011 and 2010, respectively. After amortizing the borrowing and calculating the “time value” of the option, the remaining fair value is attributed to the at-the-market swap.

Market Access Risk **-** If the option is exercised the Association will be obligated to issue variable rate debt refunding the applicable Series 2001 Bonds and the Association would be subject to net swap payments as required by terms of the contract - a fixed payment of 5.125% would be due to the Counterparty and a variable payment based on the Bond Market Municipal Swap Index plus 21 basis points (0.21%) would be due from the Counterparty. If the option is exercised and the variable-rate bonds are issued, the actual savings ultimately recognized on the transaction will be affected by the relationship between the interest rate terms of the to-be-issued variable rate bonds and the variable payment on the swap.

Interest Rate Risk **-** The Association is exposed to interest rate risk on its swap agreement. On the pay-fixed, receive-variable interest rate swap, the Association's net payment increases as the Bond Market Municipal Swap Index decreases.

Credit Risk **-** At June 30, 2011, the Association was not exposed to credit risk because the swap had negative fair value. However, should interest rates change such that the fair value of the swap becomes positive, the Association would be exposed to credit risk in the amount of the swap's fair value.

B. Investment Derivatives – GASB Organizations

University of Georgia Research Foundation

During 2008, the Real Estate Foundation which is part of the University of Georgia Research Foundation, entered into an interest rate cap agreement to limit the interest rate on the variable rate 2001 Bonds to a 4.0% fixed rate until December 3, 2012. On December 14, 2009, this derivative instrument was terminated. During 2006, the Real Estate Foundation entered into an interest rate cap agreement to limit the interest rate on the variable rate revolving credit agreement to a 6% fixed rate until December 1, 2010.

Component Unit – FASB Organizations

The fair value balances and notional amounts of hedging derivative investments outstanding as reported in the fiscal year 2011 financial statements for foundations electing FASB provisions are as follows:

	Change in Fair Value		Fair Value at June 30, 2011		
	Classification	Amount	Classification	Amount	Notional
Component unit activities - FASB					
Cash flow hedges:					
Georgia College & State University Foundation					
	Investment Revenue	$ 135,235	Debt	$ (739,863)	$ 6,715,000
	Investment Revenue	352,276	Debt	(3,650,550)	25,000,000
	Investment Revenue	1,228,184	Debt	(8,672,058)	69,820,000
Georgia Tech Foundation, Inc.					
	Investment Revenue	(1,198,000)	Debt	(7,655,000)	36,840,000
	Investment Revenue	(1,824,000)	Debt	(15,066,000)	88,750,000
MCG Health, Inc.					
	Investment Revenue	4,088,664	Debt	(14,499,225)	135,000,000
University of Georgia Foundation					
	Investment Revenue	315,599	Debt	(1,430,095)	5,894,453
	Investment Revenue	33,855	Debt	(43,174)	825,668
				$ (51,755,965)	

The fair value balances and notional amounts of hedging derivative instruments outstanding at June 30, 2010, and the changes in fair value of such derivative instruments for the year then ended as reported in the 2010 financial statements for foundations electing FASB are as follows:

	Change in Fair Value		Fair Value at June 30, 2010		
	Classification	Amount	Classification	Amount	Notional
Component unit activities - FASB					
Cash flow hedges:					
Georgia College & State University Foundation					
	Investment Revenue	$ (3,601,233)	Debt	$ (875,098)	$ 7,175,000
	Investment Revenue	-	Debt	(4,002,826)	25,000,000
	Investment Revenue	-	Debt	(9,900,242)	69,820,000
Georgia Tech Foundation, Inc.					
	Investment Revenue	(2,093,000)	Debt	(6,457,000)	34,455,000
	Investment Revenue	(4,197,000)	Debt	(13,242,000)	88,750,000
MCG Health, Inc.					
	Investment Revenue	(6,499,542)	Debt	(18,587,889)	135,000,000
University of Georgia Foundation					
	Investment Revenue	(433,565)	Debt	(1,822,723)	6,200,000
	Investment Revenue	-	Debt	-	1,117,865
				$ (54,887,778)	
Investment Derivative Instruments:					
University of Georgia Research Foundation[1]					
	Investment Revenue	(1,298)	Debt	$ -	12,005,438
	Investment Revenue	(26,023)	Debt	(47,923)	-
				$ (47,923)	

[1]The University of Georgia Research Foundation elected GASB provisions in 2011.

Interest Rate Swap Derivatives – FASB Organizations

<u>Georgia College & State University Foundation (Foundation)</u>

The Foundation 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. The Foundation's specific goal is to lower (where possible) the cost of its borrowed funds.

The Foundation 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 4.715%. The notional amounts are noted below. The interest rate swap contains no credit-risk-related contingent features and is cross collateralized by certain assets of the Foundation.

The effective portion of the gain or loss on this interest rate swap is reported in changes in net assets. Gains and losses on the interest rate swap representing hedge ineffectiveness or excluded from the assessment of hedge effectiveness are recognized in current period changes in net assets.

The interest-rate swap transaction is summarized above and is included with liabilities in the Statement of Net Assets. There was no portion of the loss that was considered ineffective or excluded from the assessment of hedge effectiveness.

Georgia Tech Foundation, Inc. (Foundation)

The Foundation does not issue or trade derivative financial instruments except as described herein. Foundation assets are invested on its behalf with various investment managers, some of whom are authorized to employ derivative instruments, including swaps, futures, forwards and options. These derivatives are generally used for managing interest rate or foreign currency risk or to attain or hedge a specific financial market position. The following information is presented in thousands.

During 2008, a third party exercised the swaption related to the 1997A Bonds issued by Georgia Tech Facilities, Inc. (Facilities) and guaranteed by the Foundation. In conjunction with the exercise of the swaption, Facilities issued variable rate, tax-exempt 2008C Bonds with an interest rate approximately equal to the Securities Industry and Financial Markets Association (SIFMA) index plus 10 basis points, retired the 1997A Bonds with the proceeds, and entered into an underlying interest rate swap agreement with the third party, guaranteed by the Foundation. The agreement had an effective date of March 1, 2008 and a termination date of September 1, 2027. In June 2010, Facilities issued the 2010B Bonds which refunded the 2008C Bonds as well as provided the funds necessary $(1,560) to terminate the interest rate swap on the 2008C Bonds. Prior to the termination of the interest rate swap, a loss of $(212) was recognized in 2010 as a change in fair value of derivative financial instruments in the statements of activities. This resulted in a reduction in unrestricted net assets.

In 2003, the Foundation sold an interest rate swap option (swaption) to a third party and received $945. This transaction enabled the Foundation to monetize the call option on the Series 2001A Bonds, based on interest rate levels at that time. The swaption may be exercised by the third party on, and only on, November 1, 2011. If exercised, the Foundation will pay the third party a fixed rate of 5.27% (the average coupon rate on the existing bonds) through November 1, 2030 on principal amounts related to the bonds, and will receive a variable interest rate from the third party, on the same principal amounts, based on the SIFMA Index plus 10 basis points (0.10%). As of June 30, 2011 the total notional amount of the swaption once exercised is $36,840. The swaption, which had a fair value of $7,655 as of June 30, 2011, is reported as a derivative financial instrument (representing a liability), in the statements of financial position. A loss of $(1,198) was recognized in 2011 as a change in fair value of derivative financial instruments in the statements of activities, reducing unrestricted net assets.

In 2003, the Foundation sold a swaption to a third party and received $2,251. This transaction enabled the Foundation to monetize the call option on the Series 2002A Bonds, based on interest rate levels at that time. The swaption may be exercised by the third party on, and only on, May 1, 2012. If exercised, the Foundation will pay the third party a fixed rate of 5.01% (the average coupon rate on the existing bonds) through November 1, 2031 on principal amounts related to the bonds, and will receive a variable interest rate from the third party, on the same principal amounts, based on the SIFMA Index plus 10 basis points. If the third party exercises the swaption, the Foundation may cause variable rate tax-exempt bonds to be issued on its behalf (at an expected rate equal to the SIFMA Index plus 10 basis points) and utilize the proceeds to retire the Series 2002A Bonds. As of June 30, 2011 the total notional amount of the swaption once exercised is $88,750. Thus, if the swaption is exercised, it is expected that the Foundation will continue to pay the same fixed interest rate as if it had not called the Series 2002A Bonds. The swaption, which had a fair value of $15,066 as of June 30, 2011, is reported as a derivative financial instrument (representing a liability), in the Statement of Net Assets. A loss of $(1,824) was recognized in 2011 as a change in fair value of derivative financial instruments in the Statements of Activities, reducing unrestricted net assets.

MCG Health, Inc.

MCG Health, Inc. (Company) entered into a variable-to-fixed interest rate swap (the Swap). The intention of the Swap is to effectively convert the Company's variable interest rate on the Bonds into a synthetic fixed rate of 3.302%.

The Bonds and the Swap mature on July 1, 2037. The initial notional amount of the Swap is $135,000,000. 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, 2011 and 2010, the fair value of the Swap represented a liability to the Company in the amount of $14,499,225 and $18,587,889, 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, 2011 and 2010, the Company had posted collateral of $5,400,000 and $8,100,000, respectively, with the Swap Counterparty which is included in other receivables in the Company's consolidated balance sheets.

As of June 30, 2011, 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 and Standard & Poor's and Aa3 by Moody's Investors Service as of June 30, 2011. 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, 2011, the prevailing market rate was an aggregate 0.09%, whereas 68% of LIBOR was 0.128%. As of June 30, 2010, the prevailing market rate was an aggregate 0.222%, whereas 68% of LIBOR was 0.230%.

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 (Foundation)

The Foundation has two outstanding interest rate swap agreements effectively changing the interest rate exposure on the $1,117,865 note payable from variable to a 5.75% fixed rate over the term of the note payable and 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, 2011 and 2010, the fair value of those interest rates swaps was a liability of $1,473,269 and $1,822,723, respectively. The Foundation recorded a gain on such swaps of $349,454 and a loss of $433,565 for the years ended June 30, 2011 and 2010, respectively, as an adjustment to interest expense.

Notes continued on the next page.

NOTE 14 – INTERFUND BALANCES AND TRANSFERS

Due To/From Other Funds at June 30, 2011, consist of the following (in thousands):

	Due From Other Funds				
	General Fund	Nonmajor Governmental Funds	Internal Service Funds	Fiduciary Funds	Total Due To Other Funds
Due To Other Funds					
General Fund	$ -	$ -	$ 301,106	$ -	$ 301,106
Higher Education Fund	-	-	90,579	-	90,579
State Employees' Health Benefit Plan	-	-	-	12,657	12,657
Nonmajor Enterprise Funds	-	4,022	-	-	4,022
Nonmajor Governmental Funds	-	-	143	-	143
General Obligation Bond Projects	513	-	1	-	514
Internal Service Funds	36	-	26	-	62
Fiduciary Funds	-	-	13	1,351	1,364
Total Due From Other Funds	**$ 549**	**$ 4,022**	**$ 391,868**	**$ 14,008**	**$ 410,447**

Interfund receivables and payables result from billings for goods/services provided between funds. All interfund receivables and payables are considered short-term in nature.

Interfund transfers at June 30, 2011, consist of the following (in thousands):

	Governmental Funds			Proprietary Funds			
	General Fund	General Obligation Bond Projects Fund	Nonmajor Governmental Funds	Higher Education Fund	Internal Service Funds	Fiduciary Funds	Total Transfers Out
Transfers Out:							
General Fund	$ -	$ 14,682	$ 1,339,112	$ 2,122,900	$ 4,971	$ 2,059	$ 3,483,724
General Obligation Bond Projects	13,869	-	35,193	-	-	-	49,062
Higher Education Fund	4,250	-	-	-	-	-	4,250
Unemployment Compensation Fund	4,287	-	-	-	-	-	4,287
Internal Service Funds	56,050	-	-	-	1,166	-	57,216
Total Transfers In	**$ 78,456**	**$ 14,682**	**$ 1,374,305**	**$ 2,122,900**	**$ 6,137**	**$ 2,059**	**$ 3,598,539**

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.

Notes continued on the next page.

NOTE 15 – SEGMENT INFORMATION

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 Project (the Project). The Project is accounted for within the nonmajor Enterprise Funds, along with other activity of the Authority. Investors in those bonds rely solely on the revenue generated from the Project for repayment. Summary financial information for the Project is presented below.

The Georgia Higher Education Facilities Authority (GHEFA) issued revenue bonds to acquire, construct, and equip several projects on college campuses throughout the State. Financial information for the Authority is included within the nonmajor Enterprise Funds. Summary financial information for the Authority is presented below.

	Georgia 400 Project	Georgia Higher Education Facilities Authority
Condensed Statement of Net Assets		
Assets		
Current assets	$ 80,678	$ 4,767
Noncurrent assets	13,443	294,004
Capital assets	5,430	-
Total assets	99,551	298,771
Liabilities		
Current liabilities	6,689	4,230
Noncurrent liabilities	37,299	287,872
Total liabilities	43,988	292,102
Net assets		
Invested in Capital Assets, Net of Related Debt	5,430	-
Restricted	27,343	-
Unrestricted	22,790	6,669
Total net assets	$ 55,563	$ 6,669
Condensed Statement of Revenues, Expenses, and Changes in Net Assets		
Operating revenues (pledged against bonds)	$ 20,292	$ 15,183
Depreciation/amortization expense	(1,795)	(313)
Other operating expenses	(7,413)	(8)
Operating income	11,084	14,862
Nonoperating revenues (expenses)		
Investment income	38	1
Interest expense	(979)	(15,133)
Change in net assets	10,143	(270)
Beginning net assets	45,420	6,939
Ending net assets	$ 55,563	$ 6,669
Condensed Statement of Cash Flows		
Net cash provided by (used in):		
Operating activities	$ 13,669	$ 14,996
Noncapital financing activities	39,842	(14,953)
Capital and related financing activities	(23,238)	-
Investing activities	21,548	17
Net increase (decrease)	51,821	60
Beginning cash and cash equivalents	17,646	291
Ending cash and cash equivalents	$ 69,467	$ 351

Notes continued on the next page.

NOTE 16 – LITIGATION, CONTINGENCIES, AND COMMITMENTS

A. Grants and Contracts

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 the Georgia Technology Authority (GTA) (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, the ultimate disposition of these proceedings would not have a material adverse effect on the financial condition of the State, with the following exceptions:

Primary Government

1. A suit has been filed against the Department of Transportation (DOT) by a plaintiff alleging three breach of contract causes of action, two related to price escalations of asphalt both prior to and subsequent to the original completion date, and the third alleging the failure to pay an outstanding contract balance in excess of $500,000 for work performed by the completion contractor. The plaintiff also alleges a claim under the Prompt Payment Act. The plaintiff's initial estimate of damages was approximately $9,000,000. The parties went to mediation in March 2010, but failed to reach a settlement. On March 9, 2010, DOT filed a motion for partial summary judgment on the majority of the issues. The hearing on the motion was held on March 28, 2011; however, based on arguments made by the plaintiff during the summary judgment hearing it now appears that the damages sought by the plaintiff has been reduced to $4,500,000. The Court has not rendered a decision on the motion and discovery is ongoing.

2. A suit was filed in Fulton County Superior Court on December 2, 2005 in which the plaintiff sought a tax refund of $2,281,990 from the Department of Revenue (DOR). The Court found in favor of DOR and the plaintiff's application for discretionary appeal was denied by the Georgia Court of Appeals. The plaintiff, its successor in interest, and other related entities (hereinafter collectively referred to as "the plaintiff") subsequently filed a number of separate but related lawsuits against DOR. In each of such cases, as described below, DOR has asserted the defense of collateral estoppel, as the legal issue in each case involves the same legal issue decided in favor of DOR in the 2005 case.

a. Filed on September 20, 2007. Plaintiff seeks a sales tax refund of $10,147,730 from DOR. DOR filed a motion to dismiss on May 12, 2008 claiming collateral estoppel, as this case involves the same legal issue decided in favor of DOR in the 2005 case. Oral argument was conducted on February 9, 2011, and on February 11, 2011, the Superior Court granted DOR's motion to dismiss. The plaintiff's appeal was docketed on July 25, 2011. Both the plaintiff and DOR have filed their initial briefs and the plaintiff filed its reply brief on September 26, 2011. Oral argument was conducted before the Court of Appeals on November 10, 2011, and the parties are waiting for the decision from the Court of Appeals.

b. Filed in Fulton County Superior Court on December 23, 2009. The plaintiff seeks a sales tax refund of $3,206,523 from DOR. DOR filed an answer on January 20, 2010 claiming collateral estoppel, as this case involves the same legal issue decided in favor of DOR in the 2005 case.

c. Filed in Fulton County Superior Court on October 8, 2010. The plaintiff seeks a sales tax refund of $2,972,698 from DOR. DOR filed an answer on November 11, 2010 claiming collateral estoppel, as this case involves the same legal issue decided in favor of DOR in the 2005 case.

3. A class action lawsuit filed on June 6, 2002 on behalf of 2,200 children in state custody asserting systemic deficiencies in foster care in Fulton and DeKalb counties. A consent decree was entered wherein the Department of Human Services ("DHS") (successor to certain powers, functions and duties of the former Department of Human Resources) agreed to make a number of specific system-wide management and infrastructure reforms (the "Consent Decree").

The United States District Court for the Northern District of Georgia (the "N.D. Ga. District Court") appointed two independent accountability agents to monitor DHS's progress and awarded attorneys' fees and costs to the plaintiffs in the amount of $10.5 million, of which $4.5 million was the result of a 1.75 multiplier applied by the N.D. Ga. District Court. DHS appealed the award of attorneys' fees to the Eleventh Circuit Court of Appeals (the "Eleventh Circuit"). In July 2008, the Eleventh Circuit affirmed the entire award. However, the majority opinion noted that although the panel affirmed the 1.75 multiplier applied by the N.D. Ga. District Court to the attorneys' fees and costs, they did so because they were bound by Eleventh Circuit precedent which the opinion noted may conflict with that of the United States Supreme Court (the "U.S. Supreme Court"). DHS filed a petition for rehearing *en banc* in the Eleventh Circuit, which was denied on November 5, 2008. On April 6, 2009, the U.S. Supreme Court granted the State's petition for certiorari on the award of attorney's fees and costs in this case, and oral argument was conducted before the U.S. Supreme Court on October 14, 2009. On April 21, 2010, the U.S. Supreme Court issued a decision in the case vacating and remanding the N.D. Ga. District Court's multiplier portion of its award of attorneys' fees and costs to Plaintiffs' counsel, holding that the N.D. Ga. District Court did not provide a proper justification for the amount of the multiplier. On remand, the Eleventh Circuit ordered the parties to mediation, which was held on August 25, 2010. The parties were unable to reach an agreement on the amount of the multiplier and on November 15, 2010, Plaintiffs filed a renewed motion for attorneys' fees and costs with the N.D. Ga. District Court. In the interim, the State has paid the undisputed portion of the requested fees in the amount of $8.1 million.

In addition, Plaintiffs sought and received payment from the State in June 2010 of an additional $1 million in attorneys' fees related to the State's efforts to comply with the Consent Decree. On March 31, 2011, the N.D. Ga. District conducted a hearing on the award of attorneys' fees. On July 19, 2011, the N.D. Ga. District Court entered two written orders. In the first order, the Plaintiffs' request for any enhancement of the multiplier of their original award was denied as there was no evidence in the record to support it. In the second order, while Plaintiffs' request for attorneys' fees and expenses related to the State's appeal to the Eleventh Circuit was denied, the N.D. Ga. District Court determined that Plaintiffs partially prevailed in the appeal to the Supreme Court, and thus would be permitted to submit a request for all fees and expenses related to their work on the appeal to the Supreme Court. Plaintiffs in turn submitted their request for a total of $995,895.53. The State's response was submitted to the N.D. Ga. District Court on September 6, 2011 in which the State alternatively argued that Plaintiffs are not entitled to any award, but if the N.D. Ga. District Court should determine that they are, then they should be awarded only approximately $330,000. The Plaintiffs filed a reply brief on September 23, 2011, and the N.D. Ga. District Court has not yet scheduled a hearing on this fee request or issued another written order.

In the underlying litigation regarding compliance with the Consent Decree regarding placement of children in Department of Family and Children's Services custody for Fulton and DeKalb counties, on November 23, 2010 the N.D. Ga. District Court entered a stipulated modification of the Consent Decree regarding measurement and reporting of DHS's performance thereunder. On April 12, 2011, due to Fulton County's substantial compliance with all material aspects of the Consent Decree for eighteen consecutive months, the N.D. Ga. District Court entered a consent decree to terminate the N.D. Ga. District Court's jurisdiction over Fulton County and dismissing the action as it pertains to Fulton County and the Consent Decree. The N.D. Ga. District Court also approved the payment of $145,000 in attorneys' fees and expenses related to the Fulton County portion of the action.

4. Master Tobacco Settlement: Pursuant to the terms of the 1998 Master Settlement Agreement ("MSA") entered into between the Attorneys General of 46 states, including the State of Georgia, the District of Columbia, and the four U.S. Territories (collectively, the "Settling States"), and the major tobacco companies and other companies that have joined the MSA since its execution (collectively the "participating manufacturers"), the participating manufacturers must make payments into the Tobacco Settlement Fund to compensate the Settling States for Medicaid and other public health expenses incurred in the treatment of tobacco-related illnesses (Florida, Minnesota, Mississippi, and Texas settled separately). The State receives annual payments from the Tobacco Settlement Fund which are paid into the State Treasury and appropriated by the General Assembly. The participating manufacturers have commenced arbitration against the Settling States under the terms of the MSA in which the participating manufacturers contend that the amount of their payments to the Settling States for 2003 should be reduced. The State of Georgia asserts that it has acted properly and that the participating manufacturers are not entitled to a reduction in the amount of payments to be made to the State. In the event of a final determination in favor of the participating manufacturers, the current payments due to the State from the Tobacco Settlement Fund would be reduced in order to recapture any overpayment for 2003. With respect to the State of Georgia, the maximum potential reduction of funds to the State would not exceed the total fund payments of $129.13 million received by the State in 2003. Recently, the participating manufacturers asked the arbitrators to rule that they have the right under the MSA to withhold disputed monies from their annual payments pending the outcome of arbitration over their claims. The arbitrators ruled that the independent auditor for the MSA cannot apply an interim adjustment to the 2003 payments until an arbitration panel makes a final determination. The current arbitration proceeding is expected to last through calendar year 2012, and the participating manufacturers have stated that they will seek arbitration over adjustments for calendar year 2004 and subsequent calendar years. On November 4, 2011 the Participating Manufacturers contested the diligent enforcement efforts of thirty-three states, including Georgia, as well as the District of Columbia and Puerto Rico.

5. Interstate Water Disputes Among Georgia, Alabama and Florida: The State is involved in litigation in the United States District Court for the Middle District of Florida (the "M.D. Fl. District Court"), the United States District Court for the Northern District of Alabama (the N.D. Al. District Court"), and the Eleventh Circuit Court of Appeals concerning the operation of U.S. Army Corps of Engineers ("Corps") dams and reservoirs on the Chattahoochee River in Georgia for water supply and other purposes. Buford Dam impounds the Chattahoochee River to form Lake Lanier and is part of the Apalachicola-Chattahoochee-Flint ("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. Carters Lake and Lake Allatoona are in the Alabama-Coosa-Tallapoosa ("ACT") River Basin, which is shared by Alabama and Georgia.

Several cases involving the federal reservoirs in the ACF River Basin were consolidated by the Judicial Panel on Multidistrict Litigation (the "JPML") and assigned to U.S. District Judge Paul Magnuson in the M.D. Fl. District Court (the "ACF River Basin Litigation"). The ACF River Basin Litigation is docketed as *MDL-1824 In Re Tri-State Water Rights Litigation*, M.D. Fl., Case No. 3:07-MD-1. The main components of the ACF River Basin Litigation are: (1) several cases involving the authority of the Corps to operate Lake Lanier for water supply (this portion of the ACF River Basin Litigation is referred to as "Phase 1"), and (2) cases dealing with the quantity of water that the Corps must release from the federal reservoirs in the ACF River Basin to support the habitats of certain endangered and threatened species in the Apalachicola River in Florida pursuant to the Endangered Species Act (the

"ESA") (this portion of the ACF River Basin Litigation is referred to as "Phase 2").

Phase 1 of the ACF River Basin Litigation involves primarily interpretation of two statutes that govern the Corps' authority to operate Buford Dam and Lake Lanier: the River and Harbor Act of 1946 (the "1946 RHA") and the Water Supply Act of 1958 (the "WSA"). The 1946 RHA is the statute that authorized the construction of Buford Dam and Lake Lanier. The State of Georgia maintains that the 1946 RHA authorizes the Corps to modify its operations over time to meet evolving water supply needs. The States of Alabama, Florida, and other parties aligned with them (the "Alabama/Florida Parties") argue that the 1946 RHA merely allows the Corps to make available for water supply whatever water results incidentally from releases that are made to maximize the hydropower benefit from Lake Lanier. Construction of the Buford Dam/Lake Lanier project commenced in 1950 and took approximately six years. In 1958, the U.S. Congress enacted the WSA. The WSA allows the Corps to include storage in any reservoir project nationwide for municipal water supply, subject to certain restrictions.

During the 1970's, federal, state, and local governments conducted a joint study that concluded that the most favorable source of future water supply for metropolitan Atlanta was Lake Lanier. In the 1970's, the Corps began to enter into short-term contracts with certain Georgia municipalities to provide them with water supply from the Buford Dam/Lake Lanier project pending a permanent reallocation of storage in Lake Lanier to water supply. In 1989, the Corps issued a draft proposal to reallocate storage in Lake Lanier to water supply, and in 1990, Alabama sued the Corps to block that proposal. Georgia and Florida moved to intervene in that litigation, and it was stayed for more than a decade to allow negotiations to proceed.

On July 17, 2009, Judge Magnuson reached a decision in Phase 1 of the ACF River Basin Litigation (the "Phase 1 District Court Order"). In the Phase 1 District Court Order, Judge Magnuson held, among other things, that: (1) water supply is not an authorized purpose of the Buford Dam/Lake Lanier project under the 1946 RHA; and (2) the Corps' operations to meet current (and therefore also future) water supply demands exceed the supplemental authority that the WSA provides. The Phase 1 District Court Order provided that the Corps could continue operating Lake Lanier to meet current water supply needs until July 17, 2012, to allow time for federal legislation authorizing such operations, or for some alternative form of settlement among the parties. According to the Phase 1 District Court Order, in the absence of such legislation or settlement, as of July 17, 2012, direct water supply withdrawals from Lake Lanier (with the exception of certain withdrawals by the Cities of Buford and Gainesville) would have to cease, and releases from Buford Dam for water supply use downstream would have to revert to what Judge Magnuson found to be the "baseline" operation of the mid-1970's, which would result in a substantial reduction from the current levels of water supply withdrawals for the affected municipal water systems. The State of Georgia, other parties aligned with it, and the Corps appealed the Phase 1 District Court Order to the Eleventh Circuit. The appeals are docketed as *__In Re: MDL-1824 Tri-State Water Rights Litigation__*, United States Court of Appeals for the Eleventh Circuit Case Nos. 09-14657-G, 09-14810-G, and 09-14811-G.

On June 28, 2011, the Eleventh Circuit issued a decision (the "Eleventh Circuit Decision") reversing the Phase 1 District Court Order. The Eleventh Circuit Decision held, among other things, that (1) water supply is an authorized purpose of Lake Lanier under 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; (5) the WSA supplies supplemental authority, in addition to the authority under the 1946 RHA, for the Corps to reallocate storage to water supply; and (6) the M.D. Fl. District Court lacked jurisdiction to hear the Alabama/Florida Parties' Phase 1 claims because they were not challenges to any final agency action. The Eleventh Circuit remanded the case to the M.D. Fl. District Court with instructions for the M.D. Fl. District Court to remand the State of Georgia's water supply request to the Corps for 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. The Alabama/Florida Parties petitioned the Eleventh Circuit for rehearing. The Eleventh Circuit denied that petition on September 16, 2011. The Alabama/Florida Parties may appeal the Eleventh Circuit Decision to the United States Supreme Court. If such an appeal is filed, the U.S. Supreme Court will have discretion whether or not to hear it. The Alabama/Florida Parties' petition for certiorari is due February 13, 2012.

In Phase 2 of the ACF River Basin Litigation, the State of Florida and other parties aligned with it (the "Florida Parties") claimed that the Corps' operating plan for the federal reservoirs in the ACF River Basin would place certain endangered and threatened species in jeopardy and result in adverse modification of the critical habitats of those species in violation of the ESA. An analysis by the United States Fish and Wildlife Service (the "FWS") found that the Corps' operating plan would not violate the ESA. On July 21, 2010, Judge Magnuson entered summary judgment in favor of the Corps and the FWS and against the Florida Parties as to all claims in Phase 2 of the ACF River Basin Litigation (the "Phase 2 District Court Order"). The Florida Parties appealed the Phase 2 District Court Order to the Eleventh Circuit on September 20, 2010 and subsequently moved to stay those appeals pending further consultation between the Corps and FWS regarding the Corps' interim operating plan. At present, the Florida Parties' opening briefs in the Phase 2 appeals are due on January 30, 2012. The Phase 2 appeals are docketed as *State of Florida v. U.S. Army Corps of Engineers*, United States Court of Appeals for the Eleventh Circuit Case Nos. 10-14403 & 10-14511.

In addition to the ACF River Basin Litigation, the litigation concerning the Corps' reservoir operations in the ACT River Basin and a permit that the Corps issued for the construction of the Hickory Log Creek Reservoir is pending in the N.D. Al. District Court (the "ACT River Basin Litigation"). The ACT River Basin Litigation includes claims by Alabama and parties aligned with it (the "Alabama Parties") that the Corps has exceeded its authority under the WSA through its operation of Lake Allatoona; that the Corps has acted illegally in allowing the Cobb-Marietta Water Authority ("CCMWA"), which supplies potable water to several large municipal water systems, including Cobb County, in the northwestern metropolitan Atlanta region, to allegedly withdraw more water than is allowed under CCMWA's storage contract with the Corps; and that the Corps violated the National Environmental Policy Act and other statutes when it issued the permit to the City of Canton and CCMWA for the Hickory Log Creek Reservoir. The ACT River Basin Litigation is docketed as *Alabama, et al. v. U.S. Army Corps of Engineers, et al.*, N.D. Al. District Court Case No. 1:90-CV-01331. The ACT River Basin Litigation has been stayed for much of the past twenty years. The Alabama Parties recently asked the N.D. Al. District Court to lift the stay to allow Alabama to proceed with the ACT River Basin Litigation. The Corps, and the State of Georgia and parties aligned with it contend that most of the claims in the ACT River Basin Litigation (including all of those challenging operation of Lake Allatoona for water supply) should be dismissed based on the Eleventh Circuit Decision in the ACF River Basin Litigation, and that the remaining claims should be dismissed on other grounds. The N.D. Al. District Court allowed Georgia and the other defendants, including the Corps, to file motions to dismiss the ACT River Basin Litigation on the basis of the Eleventh Circuit Decision. Such motions to dismiss have been filed. The Alabama Parties oppose the motions to dismiss. The N.D. Al. District Court has not indicated how or when it will rule on the motions to dismiss. Were the Alabama Parties to prevail in the ACT River Basin Litigation, the result could be that water supply to CCMWA could be limited or curtailed, and the amount of water available for water supply from the Hickory Log Creek Reservoir could be limited or curtailed.

6. Department of Behavioral Health and Development Disabilities ("DBHDD"): In January 2009, the Department of Justice ("DOJ") filed a complaint in the United States District Court for the Northern District of Georgia, Civil Case No. 1:09-CV-119-CAP, under the Civil Rights of Institutional Persons Act ("CRIPA"), resulting in a five year CRIPA Settlement Agreement with respect to the seven State-operated psychiatric hospitals. In accordance with that agreement, the State of Georgia has made changes to its facilities and operations,

including hiring a nationally recognized expert and his team to lead the process.

Notwithstanding the changes, in January 2010, DOJ filed a motion to amend its complaint and contemporaneously filed a new complaint under the Americans with Disabilities Act in the United States District Court for the Northern District of Georgia (the "N.D. Ga. District Court"), Civil Case No. 1:10-CV-249. Along with the new complaint, DOJ sought a preliminary injunction seeking the appointment of a monitor to implement DOJ's requested relief. On October 19, 2010, the parties entered into a comprehensive settlement agreement, focusing on providing treatment in community settings rather than state hospitals (the "ADA Settlement Agreement"). Pursuant to the ADA Settlement Agreement, the motion for preliminary injunction was withdrawn and the action was conditionally dismissed, with the Court retaining jurisdiction to enforce the ADA Settlement Agreement. The changes in treatment required under the ADA Settlement Agreement will result in substantial additional costs to be incurred by DBHDD.

DBHDD's provision of behavioral health and development disability services has also been impacted by the U.S. Supreme Court's decision in *Olmstead v. L.C.*, issued on June 22, 1999, which held that unnecessary segregation of individuals in institutions may constitute discrimination based on disability. *Olmstead* also recognized the States' need to maintain a range of facilities for the care and treatment of persons with diverse disabilities, and thus the need to consider the resources available for providing a range of services in addition to services in the community. The decision suggested that a state could establish compliance with ADA if it demonstrated that it has a comprehensive, effectively working plan for placing eligible persons with disabilities in less restrictive settings, and a waiting list that moves at a reasonable pace given the resources available and not controlled by trying to keep the State's institutions fully populated.

DBHDD continues to transition developmentally disabled persons and persons with mental health disorders to the community at a pace it considers to be reasonable. In accordance with the CRIPA Agreement with DOJ, the State has made changes in the staffing plans for the hospitals, and the way that treatment and discharge planning are managed for all consumers. On October 6, 2011, the Independent Reviewer retained to monitor compliance with the ADA Settlement Agreement filed her initial report with the N.D. Ga. District Court. While the report included a discussion of areas in need of continued improvement, the Independent Reviewer concluded that the State has demonstrated good faith and commitment in its implementation of its obligations under the ADA Settlement Agreement and has demonstrated that it can and will honor its obligation to comply with the substantive provisions thereof.

7. A suit has been filed in the United States District Court for the Northern District of Georgia on September 9, 2010 in which six plaintiffs purportedly suffering from mental or developmental disabilities filed a claim for relief against the Departmnent of Community Health (DCH) and DBHDD under the ADA and the *Olmstead* decision with respect to the alleged termination of certain Medicaid benefits for community-based behavioral health disability services. The plaintiffs have filed a motion seeking preliminary injunctive relief including reinstatement of the allegedly terminated benefits. A hearing on the motion was held on October 7, 2010 and a preliminary injunction was entered by the Court, which has been extended through February 13, 2012. The State has until March 12, 2012 to file any defensive pleadings. DOJ has filed a motion to intervene.

8. Immigration Legislation: During its 2011 session, the General Assembly passed the Illegal Immigration Reform and Enforcement Act of 2011 (Ga. L. 2011, Volume One, Book One, p. 794, *et seq.*, Act No. 252, H.B. 87, signed by the Governor on May 13, 2011 and effective July 1, 2011, referred to herein as "HB87"). The provisions of HB87 include, but are not limited to, provisions addressing criminal laws regarding: identity fraud, transporting and harboring persons that are present in the United States illegally, requiring governmental bodies to obtain affidavits from contractors entering into contracts with governmental bodies involving activities defined as physical performance of services within the State regarding their participation in a specifically defined work authorization program, requiring private employers having more than ten employees to register with and utilize a

specifically defined federal work authorization program, and requiring governmental bodies to obtain affidavits from certain persons regarding their participation in the specifically defined work authorization program before issuance or renewal of a business license, occupational tax certificate or other document required to operate a business. On June 2, 2011, a number of plaintiffs filed suit in the United States District Court for the Northern District of Georgia against the Governor and a number of other State officials as well as one local official seeking a declaratory judgment and injunctive relief regarding the constitutionality of HB87. On June 27, 2011, the Court enjoined the enforcement of two sections of HB87. Specifically, the Court prohibited enforcement of Section 7 which criminalizes behavior for those who facilitate illegal immigration by knowingly and intentionally harboring, enticing or transporting and illegal aliens within the State. The Court also enjoined the enforcement of Section 8 which authorizes Georgia law enforcement officers to reasonably investigate immigration status where they have probable cause to believe a crime has been committed. The State appealed the grant of the injunction to the Eleventh Circuit Court of Appeals on July 8, 2011 and the case is stayed pending resolution of the appeal (United States Court of Appeals for the Eleventh Circuit, Case No. 11-13044). The State filed its appellate brief on August 15, 2011, and an updated reply brief on October 28, 2011.

C. Guarantees and Financial Risk

Component Units

The federal government, through the Guaranteed Student Loan Programs of the U. S. Department of Education, fully reinsured loans guaranteed through September 30, 1993, unless the Georgia Higher Education Assistance Corporation's (GHEAC) rate of annual losses (defaults) exceeded five percent (5%). In the event of further adverse loss experience, GHEAC could be liable for up to (1) 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 (2) 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.

The Georgia Student Finance Authority (GSFA) has guarantees with certain lenders under a loan servicing agreement to repurchase loans on which the federal guarantee is lost and on which a cure is not established within one year of guarantee loss. Effective May 1, 2007, the GSFA's loan servicing agreement ended with one particular lender whose portfolio was $154.4 million. The GSFA is no longer servicing these loans; however the GSFA's guarantee is still in effect for prior serviced loans until August 12, 2028.

The GSFA is responsible for a part of the $124.8 million in pledged receivables currently on its statement of net assets that become ineligible for the Department of Education Put Program due to the GSFA's breach or incompliance with the related service agreement. Based on the GSFA claim denial rate history and the nature of the obligation under the serviced loans, $2.1 million has been reserved for these potential future liabilities.

The Georgia Housing Finance Authority (GHFA) has uninsured loans of $15.8 million as of June 30, 2011. All of these loans are for home mortgages in the State of Georgia. Current economic conditions in Georgia have declined since their peak in 2006. One impact of these conditions has been a decline in housing values. As a result, GHFA has incurred a higher rate of loss on foreclosed loans as a result of the impact of these economic factors and the decline in the value of its underlying collateral on uninsured loans. Another factor that results from the decline in the economy is an increase in the number of foreclosures.

At June 30, 2011, the Georgia Development Authority (GDA) had transferred and assigned mortgage loans totaling $29.4 million to lenders under repurchase agreements. The agreements give the lenders the option to have GDA repurchase the mortgage loans for an amount equal to the then outstanding principal balance and interest due during a specified period of time. In addition, GDA guarantees the principal and interest payment by the borrower to the lender within 30 days of the due date. Any payment not received within 30 days is considered advanced to the borrower and paid to the lender by GDA. GDA then charges the borrower interest on these advances for the period outstanding at a penalty rate agreed upon at the loan origination date. Unrestricted net assets in the amount of 15% of the principal balances outstanding of mortgage loans under repurchase agreements are designated by the GDA Board as an appropriated fund balance.

D. Pollution Remediation

Component Units

The Georgia Ports Authority is responsible for certain environmental remediation costs relative to its Bainbridge, Georgia terminal and other similar operations. The amount of environmental clean-up costs that have been accrued by the Authority as of June 30, 2011 is approximately $1.4 million.

Augusta State University has been notified as a potential responsible party for pollution remediation related to a Superfund site located in North Carolina. Other alleged customers of the facility, dating back 30 plus years, have also been notified as potential responsible parties. To date, the University has not been named in any legal action pursuant to this case. As of June 30, 2011, the University cannot reasonably estimate a liability for this pollution remediation obligation.

E. Other Significant Commitments

Primary Government

Bond Proceeds

The Georgia State Financing and Investment Commission 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, 2011, the undisbursed balance remaining on these agreements approximated $893 million.

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, 2011, the fund balances of governmental funds include encumbrances of $3.6 billion in the General Fund and $123.6 million in the General Obligation Bond Projects Fund.

The Board of Regents of the University System of Georgia had significant, unearned, outstanding construction or renovation contracts executed in the amount of $128.6 million as of June 30, 2011. This amount is not reflected in the financial statements.

The Georgia Technology Authority (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 $847.3 million. The $435.8 million AT&T master contract, effective May 1, 2009, is a five year contract with two optional years, and has a remaining balance of $301.4 million as of June 30, 2011.

Commitment to Fund Teacher Salaries

The State has historically accrued a payable to local education authorities (LEA's) for salaries earned by teachers and owed by the LEA's. For the fiscal year ended June 30, 2011, an accrual was recorded for approximately $911.8 million. This payable, however, is included in the appropriation bill effective July 1, 2011, and therefore, cannot be paid prior to July 1, 2011.

Component Units

Contractual Commitments

The Georgia Ports Authority (Authority) entered into an "Intergovernmental Agreement for Development of an Ocean Terminal on the Savannah River within the State of South Carolina" with the Georgia Department of Transportation and the South Carolina State Ports Authority (SCSPA). Under the agreement, the Authority 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 Authority has an obligation to provide $3 million in operation costs for the Jasper Port Project Office of which approximately $1.9 million has been provided as of June 30, 2011.

University System Foundations

The Georgia State University Foundation 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 years ended June 30, 2011 and 2010 totaled $7.3 million and $8.4 million, respectively.

The Georgia State University Research Foundation has an operating lease commitment to SunTrust Bank for office space located in Atlanta, Georgia in the amount of $9,599 per month through June 2012. The minimum obligation under this lease commitment is $115,185 for the year ended June 30, 2012. In addition to the minimum obligation under the lease commitment, the Research Foundation is required to pay the landlord the Research Foundation's pro-rata share of the annual operating costs of the building. This amount is estimated by SunTrust Bank and is included in the rent expense. Rent expense was $223,097 for the year ended June 30, 2011.

Effective June 15, 2009 the Research Foundation made a commitment to provide support in the amount of $500,000 to the Georgia Research Alliance Venture Fund, LLP. This support will be provided over a five-year period, or a maximum of $100,000 per year beginning in the fiscal year ended June 30, 2010. During the 2011 fiscal year, the Research Foundation contributed $39,363 which is held in investments. Total contributions to the fund at June 30, 2011 were $93,273.

In 2009, the University of Georgia Research Foundation, Inc. Board of Trustees approved a maximum of $2,187,500 for the Real Estate Foundation's portion of the joint venture with the University and Athens-Clarke County, Georgia, to build a bridge to provide access to one of the Real Estate Foundation's parcels of land. As of June 30, 2011, $1,806,919 has been expended on this project.
In May 2011, the University of Georgia Research Foundation, Inc. Board of Trustees approved maximum expenditures of $23 million related to the potential renovation or replacement of Rutherford Hall, a residence hall located on the University campus. This project is expected to begin construction in May 2012 and be completed in July 2013 in time for fall semester occupancy.

The University of Georgia Athletic Association Foundation has authorized commitments for construction aggregated approximately $4 million and $23.5 million at June 30, 2011 and 2010, respectively.

The University System of Georgia Foundation, Inc. had other significant construction contract commitments totaling approximately $34.1 million as of June 30, 2011.

Notes continued on the next page.

NOTE 17 - SUBSEQUENT EVENTS

Primary Government

A. Long-term Debt Issues

General Obligation Bonds Issued
In July 2011 the State sold General Obligation Bonds in the amount of $556.6 million for delivery on July 14, 2011:

Series	Amount (in millions)
2011A	$ 39.1
2011B	28.0
2011C	412.5
2011D	77.0
Total	$ 556.6

Proceeds of the bonds will be used primarily to fund new K-12 schools, to purchases of public safety equipment and for construction of higher education facilities.

These issuances include $479 million of tax-exempt debt and $77 million of federally taxable Qualified School Construction (QSC) bonds. The State locked in a true interest cost of 0.93% for 5-year bonds, 1.97% for 10-year bonds and 3.44% for 20-year bonds. The QSC bonds were sold with an interest rate of 3.96%. The Federal government provides a 100% interest rate subsidy on these bonds.

On November 2, 2011 the State sold General Obligation Bonds in the amount of $247.0 million for delivery on November 22, 2011:

Series	Amount (in millions)
2011H	$ 38.8
2011I	208.2
Total	$ 247.0

Proceeds of the bonds will be used primarily to fund repairs and renovations to State facilities, construction for K-12 schools, and improvements to water and sewer systems throughout the State.

The State was able to secure record low rates of 0.85 percent for the five-year bonds and 3.13 percent for the 20 year bonds.

General Obligation Refunding Bonds
In July 2011 the State sold General Obligation Refunding Bonds in the amount of $439.9 million for delivery on July 14, 2011:

Series	Amount (in millions)
2011E-1	$ 69.4
2011E-2	244.7
2011F	125.8
Total	$ 439.9

This refunding issue refinanced outstanding debt at lower rates saving the State $18.9 million in debt service and enabled the conversion of variable rate bonds to fixed rate bonds.

In July 2011 the State sold $127.3 million of General Obligation Refunding Bonds - Series 2011G in a private placement.

This refunding refinanced variable rate bonds to floating rate notes.

On November 2, 2011 the State sold General Obligation Refunding Bonds in the amount of $152.3 million for delivery on November 22, 2011:

Series	Amount (in millions)
2011J-1	$ 64.0
2011J-2	88.3
Total	$ 152.3

This refunding issue refinanced $153.8 million of the State's outstanding general obligation bonds at lower rates. The State locked in an interest cost of 2.34%. This refunding will save the State $13.3 million in debt service over the life of the bonds.

B. Retiree Benefits

On July 27, 2011 the Teachers Retirement System adopted a refinement to its "smoothed valuation interest rate" methodology used in the actuarial valuation to include a corridor around the long-term investment rate of return. This approach is used for financial reporting purposes as well as funding purposes and has been applied to the June 30, 2010 actuarial valuation. At the same time, the method used to determine the actuarial value of assets was revised to include a corridor between 75% and 125% of market value around the actuarial value.

C. Unemployment Trust Fund

The solvency of Georgia's unemployment trust fund has been an ongoing concern as the current economic downturn has continued. 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, 2011 the State had borrowed $728.0 million from the U.S. Treasury to pay State unemployment benefits. A repayment of $6.9 million was made in July 2011, reducing total borrowings for this purpose to $721.1 million. The interest rate for the Title XII loans during Federal fiscal year 2012 as published by the U.S. Treasury is about 4.0869% per annum. An interest payment of $21.0 million was paid to the U.S. Treasury on September 30, 2011. 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 November 10 of the second year of the loan; if not timely paid, the FUTA tax on the State's employers is effectively increased (by credit reduction) and the additional taxes are applied as payments against the loans. While a repayment plan has not yet been implemented, the State could adjust employer premiums. However, the rates will remain the same for fiscal year 2012 unless the General Assembly makes a decision to adjust them. Any increase in rates beyond what is needed to pay claims may be available to begin repayments of the principal component of the loaned amount.

Component Units

A. Revenue Bonds

On September 8, 2011, the Georgia Housing and Finance Authority (GHFA) issued a single family mortgage revenue bond (2011 Series B and 2009 Series C, Subseries C-4) for approximately $70.0 million. The GHFA closed this bond issue on September 8, 2011. Proceeds from the bond issue are expected to be used to purchase mortgages on affordable single family residences for those buyers who qualified under GHFA guidelines.

On December 1, 2011, the GHFA issued single family mortgage bonds in the amount of $83.0 million. This issuance includes 2011 Series C, a new issue of $33.2 million, and 2009 Subseries C-5, $49.8 million for the conversion of the final portion of 2009 Series C Bonds. Proceeds from the bond issue are expected to be used to purchase mortgages on affordable single family residences for those buyers who qualified under the GHFA guidelines.

On July 26, 2011, the Development Authority of Cobb County issued $30.2 million in revenue bonds and loaned the proceeds to Kennesaw State University Foundation (Foundation). The bonds were issued to finance the construction of a student housing project. In connection with this, the Foundation entered into a development agreement for the construction of the facility. On July 28, 2011, the Foundation entered into an agreement with an outside vendor to complete construction services for the third phase of the Sports Park. The estimated commitment at June 30, 2011, is approximately $9.9 million.

During November 2011, the Development Authority of Fulton County issued $41.7 million in revenue bonds and loaned the proceeds to the Georgia Tech Foundation (Foundation). The proceeds of the bonds provide funds to: (i) refund certain bonds previously issued for the benefit of the Foundation to finance or refinance, in whole or in part, the costs of the acquisition, construction and installation of certain facilities of the Foundation on the campus of the Georgia Institute of Technology, (ii) finance a portion of a termination payment for an interest rate swap, and (iii) pay certain costs of issuing the bonds.

These bonds are general unsecured obligations of the Foundation.

B. Refunding Bonds

On November 29, 2011, the Georgia World Congress Center refinanced $112.6 million of Series 2000 Domed Stadium Refunding Bonds with a private placement through Wells Fargo. The original 2000 refinanced bonds had an average interest rate of 5.5% compared to the new average rate of 3.2%. This refinancing is projected to save the Authority nearly $14.0 million over the life of the bonds.

C. Other Subsequent Events

On August 8, 2011, Standard & Poor's lowered the Georgia Extended Asset Pool credit-quality rating to AA+f from AAAf.

The State, along with 42 other states and the federal government, reached an agreement with Merck Sharp & Dohme Corporation (Merck) to settle civil and criminal allegations that Merck made false and misleading representations about its drug Vioxx. Specifically, the allegations claim that Merck marketed Vioxx for uses not approved by the United States Food and Drug Administration (FDA) and misrepresented the cardiovascular safety issues relating to the drug. The settlement amount for Georgia Medicaid is $15.6 million in state and federal dollars. The State portion is $6.8 million.

In 2003 the Georgia Tech Foundation (Foundation) sold an interest rate swap option (swaption) to a third party. The transaction enabled the Foundation to monetize the call option on certain bonds based on interest rates at that time. The swaption was exercised by the third party on November 1, 2011, and as a result, the Foundation refunded those bonds through the Development Authority of Fulton County as discussed above. As a result of the exercise, the Foundation paid the third party $10.1 million dollars to terminate the swaption.

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Funding Progress (OPEB)
(dollars in thousands)

Retirement System	Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability ("AAL") - 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	7/1/2008	$ 290	$ 3,258,200	$ 3,257,910	0.0%	$ 2,372,385	137.3%
Health Benefit Fund	7/1/2009	10,566	3,129,508	3,118,942	0.3%	2,399,532	130.0%
	7/1/2010	123	3,384,100	3,383,977	0.0%	2,432,367	139.1%

Separate financial reports that include the required supplementary information for this plan are publicly available and may be obtained from the Board of Regents of the University System of Georgia.

Required Supplementary Information
Budgetary Comparison Schedule
Budget Fund
For the Fiscal Year Ended June 30, 2011
(dollars in thousands)

	Original Appropriation	Amended Appropriation	Final Budget	Actual	Variance
Funds Available					
State Appropriation					
State General Funds	$ 15,398,666	$ 15,404,225	$ 15,404,225	$ 15,405,710	$ (1,485)
Brain and Spinal Injury Trust Fund	1,961	1,961	1,961	1,964	(3)
Hospital Provider Payment	229,007	215,766	215,080	215,080	-
Care Management Organization	-	-	297	297	-
Revenue Shortfall Reserve for K-12 Needs	-	152,158	152,158	152,158	-
Nursing Home Provider Fees	131,322	131,322	128,771	128,771	-
Lottery Funds	1,127,652	1,158,704	1,158,704	1,149,704	9,000
State Motor Fuel Funds	860,689	852,688	852,688	1,423,200	(570,512)
Tobacco Settlement Funds	140,062	146,799	146,799	146,799	-
State Funds - Prior Year Carry-Over					
State General Fund Prior Year	-	-	145,477	192,554	(47,077)
Brain and Spinal Injury Trust Fund - Prior Year	-	-	888	883	5
State Motor Fuel Funds - Prior Year	-	-	274,094	391,664	(117,570)
Tobacco Settlement Funds - Prior Year	-	-	194	194	-
Federal Funds					
CCDF Mandatory & Matching Funds	93,381	94,325	108,925	110,565	(1,640)
Child Care and Development Block Grant	102,184	137,773	134,490	136,874	(2,384)
Community Mental Health Services Block Grant	13,715	13,384	12,544	11,170	1,374
Community Services Block Grant	17,312	17,312	19,219	18,850	369
Federal Highway Administration [Highway Planning and Construction	1,143,630	1,143,659	1,146,133	945,169	200,964
Foster Care Title IV-E	91,637	73,661	80,981	80,855	126
Low-Income Home Energy Assistance	24,628	24,628	83,491	83,491	-
Maternal and Child Health Services Block Grant	20,919	21,824	25,072	22,837	2,235
Medical Assistance Program	5,253,441	5,244,479	5,757,706	5,508,287	249,419
Prevention and Treatment of Substance Abuse Block Grant	59,274	51,433	57,780	51,346	6,434
Preventive Health and Health Services Block Grant	3,056	3,112	3,474	2,639	835
Social Services Block Grant	54,771	92,673	107,225	93,394	13,831
Children's Health Insurance Program	232,691	246,072	246,587	230,954	15,633
Temporary Assistance for Needy Families	342,225	380,511	440,927	406,500	34,427
TANF Transfer to SSBG	25,800	25,800	15,210	-	15,210
TANF Unobligated Balance	25,201	35,216	20,385	4,425	15,960
Federal Funds Not Specifically Identified	3,424,067	3,777,943	4,394,032	4,212,850	181,182
American Recovery and Reinvestment Act of 2009					
Child Care and Development Block Grant	36,000	55,042	27,430	27,430	-
Federal Highway Administration [Highway Planning and Construction	-	-	-	162,550	(162,550)
Foster Care Title IV-E	7,178	2,861	1,876	1,876	-
Medical Assistance Program	748,910	608,624	615,850	569,512	46,338
Temporary Assistance for Needy Families	165,536	-	-	-	-
Federal Funds Not Specifically Identified	995,217	1,081,211	949,829	709,796	240,033
Federal Recovery	-	-	-	23,062	(23,062)
Other Funds	7,815,387	8,478,954	9,532,272	9,412,082	120,190
Total Funds Available	38,585,519	39,674,120	42,262,774	42,035,492	227,282
Expenditures					
Georgia Senate	9,956	9,774	10,136	9,039	1,097
Georgia House of Representatives	17,318	17,093	18,210	16,524	1,687
Georgia General Assembly Joint Offices	8,336	8,478	9,269	8,174	1,095
Audits and Accounts, Department of	30,536	30,003	30,003	29,795	208
Appeals, Court of	12,682	12,842	12,893	12,892	1
Judicial Council	16,621	16,142	18,420	16,798	1,623
Juvenile Courts	7,213	7,210	7,639	7,621	17
Prosecuting Attorneys	57,569	58,290	71,858	70,989	869
Superior Courts	57,315	57,822	57,822	57,813	9
Supreme Court	7,727	8,426	9,842	9,842	-
Accounting Office, State	16,031	15,952	20,305	19,570	735
Administrative Services, Department of	168,528	168,029	318,759	191,050	127,709
Agriculture, Department of	47,930	46,446	69,067	67,404	1,663
Banking and Finance, Department of	11,250	11,092	11,092	10,718	373
Behavioral Health & Developmental Disabilities, Department of	1,019,266	1,055,136	1,076,182	1,039,745	36,436
Community Affairs, Department of	205,134	216,821	249,258	236,925	12,333
Community Health, Department of	12,114,247	12,281,157	12,821,665	12,237,434	584,231
Corrections, Department of	1,102,075	1,102,866	1,139,481	1,133,822	5,660

(continued)

Required Supplementary Information
Budgetary Comparison Schedule
Budget Fund
For the Fiscal Year Ended June 30, 2011
(dollars in thousands)

	Original Appropriation	Amended Appropriation	Final Budget	Actual	Variance
Expenditures					
Defense, Department of	40,878	40,720	63,587	63,232	355
Driver Services, Department of	61,049	59,907	61,985	61,976	9
Early Care and Learning, Department of	503,511	513,768	503,075	503,069	6
Economic Development, Department of	28,523	27,537	30,659	30,658	1
Education, Department of	9,580,654	9,896,485	9,818,898	9,673,408	145,490
Employees' Retirement System	28,119	28,812	29,042	27,877	1,165
Forestry Commission, Georgia	45,281	48,793	55,108	55,107	1
Governor, Office of the	90,472	86,229	214,793	180,224	34,569
Human Services, Department of	1,872,139	1,824,108	1,797,752	1,729,761	67,991
Insurance, Office of the Commissioner of	16,805	16,698	16,903	16,888	15
Investigation, Georgia Bureau of	117,145	113,496	129,802	129,788	14
Juvenile Justice, Department of	310,502	293,976	296,598	288,923	7,675
Labor, Department of	416,595	414,328	622,355	553,840	68,515
Law, Department of	53,807	54,184	58,457	56,683	1,774
Natural Resources, Department of	254,086	248,641	297,180	267,918	29,262
Pardons and Paroles, State Board of	51,654	52,674	54,878	54,849	29
Personnel Administration, State	10,321	10,321	16,894	14,411	2,483
Properties Commission, State	4,238	1,588	1,786	1,745	41
Public Defender Standards Council, Georgia	39,642	38,622	69,738	67,652	2,086
Public Safety, Department of	165,103	163,377	182,438	166,969	15,469
Public Service Commission	9,110	9,389	9,612	9,611	1
Regents, University System of Georgia	5,265,467	5,742,287	6,496,615	6,031,030	465,585
Revenue, Department of	134,576	157,072	176,790	176,690	100
Secretary of State	33,356	31,536	32,145	30,911	1,234
Soil and Water Conservation Commission	7,230	7,876	9,139	9,122	17
Student Finance Commission, Georgia	806,692	835,046	835,293	800,005	35,288
Teachers' Retirement System	29,462	29,374	29,602	27,625	1,977
Technical College System of Georgia	611,849	671,366	718,626	666,234	52,392
Transportation, Department of	1,858,733	1,884,942	2,332,173	1,943,788	388,385
Veterans Service, Department of	40,036	39,657	36,974	36,879	95
Workers' Compensation, State Board of	21,499	21,723	21,456	16,384	5,072
General Obligation Debt Sinking Fund	1,167,251	1,186,009	1,290,520	1,099,866	190,654
Total Expenditures	38,585,519	39,674,120	42,262,774	39,969,278	2,293,496
Excess of Funds Available over Expenditures	$ -	$ -	$ -	$ 2,066,214	$ (2,066,214)

Required Supplementary Information
Budget to GAAP Reconciliation
For the Fiscal Year Ended June 30, 2011
(dollars in thousands)

	General Fund
Sources/Inflows of Resources	
Summary	
Actual amounts (budgetary basis) "Total Funds Available" from the budgetary comparison schedule	$ 42,035,492
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.	(7,724,890)
Revenues of nonbudgeted funds included within the State's reporting entity, and shown in the General Fund for financial reporting purposes.	17,462,192
State appropriations revenues are budgetary resources, but are netted with the State's treasury disbursements for GAAP purposes.	(18,051,663)
Basis Differences:	
Accrual of taxpayer assessed receivables and revenues.	124,272
Fund balance adjustments are not inflows of budgetary resources, but affect current year revenues for GAAP reporting purposes.	(441,141)
Prior Year Reserves Available for Expenditure are included in Funds Available, but are not revenues for GAAP reporting purposes.	(2,027,957)
Revenues from intrafund transactions are budgetary resources, but are not revenues for GAAP reporting purposes.	(416,760)
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.	(405,917)
Transfers from other funds are inflows of budgetary resources, but are not revenues for financial reporting purposes.	(37,891)
Revenue reported for nonbudgetary food stamp program.	2,824,501
Other net accrued receivables and revenues.	84,075
Total Revenues (General Fund) as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Funds	$ 33,424,313

Required Supplementary Information
Budget to GAAP Reconciliation
For the Fiscal Year Ended June 30, 2011
(dollars in thousands)

	General Fund
Uses/Outflows of Resources	
Summary	
Actual amounts (budgetary basis) “Total Expenditures” from the budgetary comparison schedule	$ 39,969,278
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.	154,598
Expenditures of Budgeted Funds for organizations not reported in the General Fund.	(9,806,224)
Basis Differences:	
Accrual of teacher salaries not included in current budget year.	43,464
Capital lease acquisitions are not outflows of budgetary resources, but are recorded as current expenditures and other financing sources for GAAP reporting.	25,851
Change in expenditure accrual for nonbudgetary Medicaid claims.	(24,720)
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.	(410,645)
Expenditures from intrafund transactions are budgetary outflows, but are not expenditures for GAAP reporting purposes.	(398,120)
Expenditures reported for nonbudgetary food stamp program.	2,824,501
Fund balance adjustments are not outflows of budgetary resources, but affect current year expenditures for GAAP reporting purposes.	(690,854)
Transfers to other funds are outflows of budgetary resources, but are not expenditures for GAAP reporting purposes.	(1,395,398)
Other net accrued liabilities and expenditures.	18,155
Total Expenditures (General Fund) as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Funds	$ 30,309,886

Budgetary Reporting

Budgetary Process
The Official Code of Georgia Annotated (OCGA), Title 45, Chapter 12, Article 4 sets forth the process for the development and monitoring of an appropriated budget for the State of Georgia. 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 the 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 Constitution of the State of Georgia, 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 demonstrate compliance at the legal level of budgetary control.

Budgetary Basis of Accounting

The annual budget of the State of Georgia 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, 2011, total State funds expenditures did not exceed appropriated amounts.

While overall expenditures of state funds did not exceed appropriations, budget units were unable to consistently demonstrate budgetary compliance at the "funding source within program" level as prescribed by the 2011 Appropriations Act. 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.

STATE OF GEORGIA

CONSTITUTION

WISDOM JUSTICE MODERATION

1776

STATE OF GEORGIA

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	4,853,471	4,548,366	305,105	6.3%
2009	4,745,378	4,278,522	466,856	9.8%
2010	4,694,930	4,213,815	481,055	10.2%
2011	4,725,104	4,262,175	462,929	9.8
2012 (a)	4,754,081	4,330,586	423,495	8.9

(a) April 2012, 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

Source: State Personnel Administration

Major Nongovernmental Employers (Fiscal Year 2011)

Company
Delta Air Lines, Incorporated
Emory Health Care
Emory University
Georgia Power Company
GMRI, Incorporated
Lockheed Martin Corporation
Lowe’s Home Centers
Mohawk Carpet
Publix Supermarkets, Incorporated
Shaw Industries, Incorporated
Target
The Home Depot
The Kroger Company
United Parcel Service
Wal-Mart Stores, Incorporated
Wellstar Health System

Source: Georgia Department of Labor

Employment in Non-Agricultural Establishments by Sector in Georgia
(Annual Average, in thousands)

Sector	2007	2008	2009	2010	2011	2012
Mining and logging	11.9	10.4	9.4	9.2	9.0	8.8
Construction	221.2	204.1	165.8	149.7	145.5	140.0
Manufacturing	431.4	409.1	358.0	345.0	350.2	352.7
Total – Goods Producing	664.5	623.6	533.2	504.0	504.6	501.5
Trade, transportation and utilities	886.9	873.9	819.0	810.7	821.0	821.0
Information	111.5	109.0	104.6	99.8	97.3	95.2
Financial activities	231.2	224.3	211.7	206.4	208.8	208.0
Professional and business services	563.6	556.7	511.3	526.4	547.1	570.1
Education and health services	458.7	469.3	476.6	488.5	499.0	507.6
Leisure and hospitality	396.1	393.9	379.6	374.2	379.6	385.7
Other services	160.5	160.9	156.6	153.6	153.4	152.4
Government	672.5	690.7	688.4	679.1	669.2	673.1
Total – Service Producing	3,481.0	3,478.6	3,347.7	3,338.7	3,375.4	3,424.5
Total non-farm	4,145.5	4,102.2	3,880.9	3,842.7	3,880.0	3,926.0

Source: U. S. Department of Labor, Bureau of Labor Statistics; April 2012 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(1)	Georgia	Georgia as % of U.S.	Georgia as % of Southeast
2007	$17.26	$15.70	$14.88	86.2%	94.8%
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	18.94	17.34	17.69	93.4	102.0

Average Annual Growth Rates in Hourly Earnings

Years	U.S.	Southeast (1)	Georgia
2000-2005	2.9%	2.8%	2.3%
2005-2010	2.4	2.7	2.7
2010-2011	1.8	2.1	6.4

(1) 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*, May, yearly (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%	Not available
Percent Rural	37.6%	35.0%	28.4%	Not available
Median Age	28.6 years	31.5 years	33.4 years	Not available

Source: U.S. Bureau of Census, 2010 Census

Georgia Public School Enrollment (PK –12)

Year	Annual Enrollment (a)
2007-2008	1,649,589
2008-2009	1,655,792
2009-2010	1,667,685
2010-2011	1,679,412
2011-2012	1,684,430

(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
2007	$39,506	$35,848	$35,369	89.5%	98.7%
2008	40,947	36,906	35,857	87.6	97.2
2009	38,846	35,251	34,046	87.6	96.6
2010	39,937	36,108	34,747	87.0	96.2
2011	41,663	37,472	36,104	86.7	96.3

Average Annual Growth Rates in Per Capita Income

Years	U.S.	Southeast (a)	Georgia
1990 – 2000	4.4%	4.4%	4.7%
2000 – 2005	3.5	4.1	3.2
2005 - 2010	2.4	2.2	1.2
2010 - 2011	4.3	3.8	3.9

(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 (2007 $ per Household)

Year	U.S.	Georgia	Georgia % of U.S.
2006	$52,124	$53,360	102.4%
2007	52,823	51,149	96.8
2008	50,939	46,812	91.9
2009	50,599	44,055	87.1
2010	49,445	44,108	89.2

Source: U.S. Bureau of Census – Current Population Survey

Real Per Capita Gross State Product
(Chained $2000 per Capita)

Year	United States	Southeast (1)	Georgia
2006	$43,220	$38,644	$40,428
2007	43,633	38,524	40,505
2008	43,079	37,671	39,503
2009	41,640	36,414	37,124
2010	42,346	36,909	37,271

(1) 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

	Georgia Revenues (a)		State Personal Income (b)		
Fiscal Year	$Billions	Annual % Change Over 5-year Period	$Billions	Annual % Change Over 5-year Period	Georgia Revenues as a % of State Personal Income
2007	$18.840	9.1%	$330.702	6.3%	5.7%
2008	18.728	5.8	340.819	5.2	5.5
2009	16.767	1.4	327.555	2.9	5.1
2010	15.216	-0.8	337.468	2.9	4.5
2011	16.559	-0.9	354.372	2.6	4.7

(a) Amounts derived from the table “GEORGIA REVENUES” under line-item “Total General Funds” in Appendix A.
(b) 2007 through 2010 – average of total personal income for the four calendar quarters of the fiscal year
Note: Annual Percent Change for 2007 - 2011 computed from 2005.

Sources: U.S. Department of Commerce, Survey of Current Business, February, April and November, yearly; *Budgetary Compliance Report,* (FY 2007 – FY 2008); 2009, 2010, and 2011 State Accounting Office

EARNINGS BY MAJOR INDUSTRY: 2011 Annual Average
($ in Billions, Seasonally Adjusted Annual Rate)

	Construction	Manufacturing	Trade	Services	Government
Georgia	$12	$24	$34	$138	$49
Southeast	108	189	242	1,033	415
United States	485	933	1,061	4,962	1,644

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

SELECTED AGRICULTURAL DATA

Georgia Cash Receipts by Selected Commodities 2006-2010 ($ in Millions)

Year	Crops	Livestock & Dairy Products	Poultry & Eggs	Vegetables & Melons	Total Receipts (a)
2006	$2,053	$3,590	$2,945	$559	$5,643
2007	2,433	4,376	3,667	558	6,809
2008	2,751	4,758	4,039	566	7,509
2009	2,556	4,291	3,665	647	6,847
2010	2,812	4,525	3,810	603	7,337

(a) Total Receipts is the sum of Crops and Livestock & Dairy Products.
Source: U.S. Department of Agriculture, Economic Research Service

2010 Farm Cash Receipts ($ in Millions)

	Georgia	United States
Crops		
Food Grains	$ 26	$ 13,910
Feed Crops	198	52,460
Cotton	793	6,270
Oil Crops	479	35,100
Vegetables	603	19,910
Fruit & Nuts	292	21,520
All Other including Tobacco	421	22,500
Total Crops	2,812	171,670
Livestock and Dairy		
Meat Animals	386	69,900
Dairy Products	255	31,400
Miscellaneous Livestock	74	4,700
Poultry and Eggs	3,810	35,500
Total Livestock and Dairy	4,525	141,500
Total Farm Cash Crops	$7,337	$313,170

Source: U.S. Department of Agriculture, Economic Research Service

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APPENDIX D

STATE OF GEORGIA

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 (the "Issuer") in connection with the issuance of $520,055,000 aggregate principal amount of State of Georgia General Obligation Bonds 2012A, $79,900,000 aggregate principal amount of State of Georgia General Obligation Bonds (Federally Taxable) 2012B, and $137,085,000 aggregate principal amount of State of Georgia General Obligation Refunding Bonds 2012C (collectively, the "Bonds"). The Bonds are being issued pursuant to resolutions adopted by the Georgia State Financing and Investment Commission on June 21, 2012 (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 (as hereinafter defined).

Section 2. Definitions. In addition to the definitions set forth in the Bond Resolutions 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 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.

"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.

"MSRB" shall mean the Municipal Securities Rulemaking Board, or any successor thereto for purposes of the Rule. Currently, MSRB's address, phone number and fax number for purposes of the Rule are:

MSRB
c/o CDINet
1900 Duke Street
Suite 600
Alexandria, VA 22314
Phone: (703) 797-6000
Fax: (703) 683-1930

"Listed Event" shall have the meaning specified in Section 7(a) hereof.

"Listed Event Filing" shall have the meaning specified in Section 7(c) hereof.

"Official Statement" shall mean the Official Statement of the Issuer dated June 21, 2012 with respect to the Bonds.

"Participating Underwriter" shall mean any of the original underwriters of the Bonds required to comply with the Rule in connection with the offering of the Bonds.

"Rule" shall mean Rule 15c2-12(b)(5) 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, 2012, 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 the Rule), 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 Resolutions, respectively.

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. **<u>Amendment; Waiver</u>**. 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 the Rule if such amendment or waiver had been effective on the date hereof but taking into account any subsequent change in or official interpretation of the Rule, 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. **<u>Default</u>**. 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. **<u>Beneficiaries</u>**. 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, the Rule; 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.

SIGNATURE PAGE TO CONTINUING DISCLOSURE AGREEMENT

FOR

STATE OF GEORGIA GENERAL OBLIGATION BONDS 2012A

STATE OF GEORGIA GENERAL OBLIGATION BONDS (FEDERALLY TAXABLE) 2012B

STATE OF GEORGIA GENERAL OBLIGATION REFUNDING BONDS 2012C

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[2]
Secretary, Georgia State Financing
and Investment Commission

[2] On June 4, 2012, pursuant to O.C.G.A. § 50-6-1(b) the Governor appointed Greg S. Griffin, the State Accounting Officer as of the date of the Official Statement, to succeed Russell W. Hinton, the State Auditor as of the date of the Official Statement of the Issuer, who is retiring from State government employment as of June 30, 2012. Pursuant to O.C.G.A. § 50-17-22(b)(1) the State Auditor serves as the secretary and treasurer of the Commission.

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APPENDIX E

STATE OF GEORGIA

Form of Opinion of Bond Counsel

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King & Spalding LLP
1180 Peachtree Street
Atlanta, Georgia 30309-3521
Main: 404/572-4600
Fax: 404/572-5100

July __, 2012

Georgia State Financing and Investment Commission
State Capitol
Atlanta, Georgia

Re: $520,055,000 State of Georgia General Obligation Bonds 2012A
$137,085,000 State of Georgia General Obligation Refunding Bonds 2012C

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 $520,055,000 General Obligation Bonds 2012A (the "2012A Bonds") and its $137,085,000 General Obligation Refunding Bonds 2012C (the "2012C Bonds" and together with the 2012A 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 21, 2012, 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,

KING & SPALDING LLP

By: ______________________________________
A Partner

APPENDIX F

STATE OF GEORGIA

Form of Opinion of Bond Counsel

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King & Spalding LLP
1180 Peachtree Street
Atlanta, Georgia 30309-3521
Main: 404/572-4600
Fax: 404/572-5100

July __, 2012

Georgia State Financing and Investment Commission
State Capitol
Atlanta, Georgia

Re: $79,900,000 State of Georgia General Obligation Bonds (Federally Taxable) 2012B

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 $79,900,000 General Obligation Bonds (Federally Taxable) 2012B (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.

(5) 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 21, 2012, 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,

KING & SPALDING LLP

By: ______________________________________
A Partner

APPENDIX G

STATE OF GEORGIA

Refunded Bonds

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SUMMARY OF GENERAL OBLIGATION BONDS REFUNDED BY THE 2012C BONDS					
Bond Series	Maturity Date	Interest Rate	Par Amount	Payment or Redemption Date	Payment or Redemption Price
2004B	3/1/2015	5.00%	12,720,000	3/1/2014	100%
2004B	3/1/2022	4.00	18,240,000	3/1/2014	100
2004B	3/1/2023	4.20	19,120,000	3/1/2014	100
2005A	9/1/2021	4.00	30,390,000	9/1/2015	100
2005A	9/1/2022	4.00	32,060,000	9/1/2015	100
2005A	9/1/2023	5.00	33,820,000	9/1/2015	100