PRELIMINARY OFFICIAL STATEMENT DATED MARCH 2, 2011

This Preliminary Official Statement and the information contained herein are subject to completion or amendment without notice. These securities may not be sold nor may offers to buy be accepted prior to the time the Official Statement is delivered in final form. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or a solicitation of an offer to buy, nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of such jurisdiction.

NEW ISSUES
(BOOK-ENTRY ONLY)

RATINGS
Moody's:
Standard & Poor's:
Fitch:
See "MISCELLANEOUS - 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 Bonds is exempt from present State of Georgia income taxation, is excluded 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 on the Bonds is taken into account in determining adjusted current earnings for the purpose of computing the federal alternative minimum tax imposed on certain corporations. See Appendix F hereto for the form of opinion Bond Counsel proposes to deliver in connection with the issuance of the Bonds. For a more complete discussion of such opinion 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 MATTERS - Opinion of Bond Counsel"** herein.*

$355,135,000*
STATE ROAD AND TOLLWAY AUTHORITY
State of Georgia (Full Faith and Credit)
Guaranteed Revenue Refunding Bonds

$203,460,000*	$151,675,000*
Series 2011A	Series 2011B

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

The State Road and Tollway Authority (the "Authority") will issue its State of Georgia (Full Faith and Credit) Guaranteed Revenue Refunding Bonds, Series 2011A and its State of Georgia (Full Faith and Credit) Guaranteed Revenue Refunding Bonds, Series 2011B (the "2011A Bonds," the "2011B Bonds," or collectively the "Bonds") only as fully registered bonds in denominations of $5,000 each or any integral multiple thereof. Interest on the 2011A Bonds is payable September 1, 2011 and semiannually thereafter on each March 1 and September 1 as more fully described herein. Interest on the 2011B Bonds is payable on October 1, 2011 and semiannually thereafter on each April 1 and October 1 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, New York, New York ("DTC"). DTC will act as securities depository for the Bonds. Payments of principal and interest on the Bonds will be made by U.S. Bank National Association, as successor Trustee, directly to Cede and 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 not subject to redemption prior to maturity.

The 2011A Bonds are being issued by the Authority for the purpose of (i) refunding a portion of its State of Georgia Guaranteed Revenue Bonds, Series 2001 (the "2001 Bonds") and (ii) paying a portion of the costs of issuing the Bonds as further described herein. The 2011B Bonds are being issued by the Authority for the purpose of (i) refunding a portion of its State of Georgia Guaranteed Revenue Bonds, Series 2003 (the "2003 Bonds") and (ii) paying a portion of the costs of issuing the Bonds as further described herein.

The Bonds will be guaranteed by the State of Georgia and will be entitled to the full faith, credit, and taxing power of the State of Georgia for payment in accordance with their terms. The 2011A Bonds are special limited obligations of the Authority payable solely from and secured on a parity with the unrefunded 2001 Bonds by a pledge of and lien on the funds specified in the Trust Indenture, dated as of December 1, 2001, as supplemented by the First Supplemental Trust Indenture, dated as of March 1, 2011 (as so supplemented, the "2001 Indenture"), between the Authority and U.S. Bank National Association as successor Trustee. The 2011B Bonds are special limited obligations of the Authority payable solely from and secured on a parity with the unrefunded 2003 Bonds by a pledge of and lien on the funds specified in the Trust Indenture, dated as of October 1, 2003, as supplemented by the First Supplemental Trust Indenture, dated as of March 1, 2011 (as so supplemented, the "2003 Indenture" and, together with the 2001 Indenture, the "Indentures"), between the Authority and U.S. Bank National Association as successor Trustee. Pledged funds for each series consist primarily of a portion of the proceeds of the motor fuel taxes imposed by the State of Georgia, which proceeds have been directed by the State of Georgia to the Authority. Pledged funds do not include revenues to be derived by the Authority from the ownership or operation of its existing toll roads or any other assets of the Authority, all as further described herein.

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

The Bonds are offered when, as and if issued by the Authority, 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 Sutherland Asbill & Brennan LLP, Atlanta, Georgia, Bond Counsel. Certain legal matters will be passed on for the Authority by its disclosure counsel, McKenna Long & Aldridge LLP, Atlanta, Georgia. 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 March 31, 2011.

The Authority will receive electronic bids March 9, 2011 at 10:30 AM, Eastern Time, as set forth in the Official Notice of Sale contained in Appendix G to this Preliminary Official Statement.

The date of this Official Statement is March __, 2011

*Preliminary, subject to change

$203,460,000*
State and Road Tollway Authority
State of Georgia (Full Faith and Credit)
Guaranteed Revenue Refunding Bonds, Series 2011A
Base CUSIP:

Maturing March 1,*	Principal*	Interest Rate*	Yield	CUSIP Suffix
2013	$13,155,000	4.000%		
2014	19,710,000	5.000		
2015	20,745,000	5.000		
2016	21,840,000	5.000		
2017	23,070,000	5.000		
2018	24,345,000	5.000		
2019	25,565,000	5.000		
2020	26,845,000	5.000		
2021	28,185,000	5.000		

$151,675,000*
State and Road Tollway Authority
State of Georgia (Full Faith and Credit)
Guaranteed Revenue Refunding Bonds, Series 2011B
Base CUSIP:

Maturing October 1,*	Principal*	Interest Rate*	Yield	CUSIP Suffix
2015	$14,550,000	5.000%		
2016	16,775,000	5.000		
2017	17,635,000	5.000		
2018	18,540,000	5.000		
2019	19,490,000	5.000		
2020	20,490,000	5.000		
2021	21,545,000	5.000		
2022	22,650,000	5.000		

*** Preliminary, subject to change**

CUSIP numbers have been assigned by an organization not affiliated with the Authority and are shown above for the convenience of the holders of the Bonds. The Authority is not 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 ROAD AND TOLLWAY AUTHORITY

Members

Nathan Deal, *Chairman*
Debbie Dlugolenski
Vance C. Smith, Jr.
Joe Wood, Jr.

Appointed Officials

Gena L. Evans, Ph.D., *Executive Director and Secretary*
Henry Li, *Treasurer*

STATE OF GEORGIA

GEORGIA STATE FINANCING AND INVESTMENT COMMISSION

Members

Nathan Deal, *Governor*
Casey Cagle, *Lieutenant Governor and President of the Senate*
David Ralston, *Speaker of the House of Representatives*
Samuel S. Olens, *Attorney General*
Gary W. Black, *Commissioner of Agriculture*
Thomas D. Hills, *State Treasurer*
Russell W. Hinton, *State Auditor*

Appointed Officials

Susan H. Ridley, *Director, Financing and Investment Division*
Steve Stancil, *Director, Construction Division*

DEPARTMENT OF TRANSPORTATION

State Transportation Board

Rudy Bowen, *Chairman*
Johnny Floyd, *Vice Chairman*

Jay Shaw
Don Grantham
Sam M. Wellborn
Robert L. Brown, Jr.
Emory C. McClinton
Brandon L. Beach
Jim Cole
Emily Dunn
David Doss
Bobby Parham
Dana Lemon

Appointed Officials

Vance C. Smith, Jr., *Commissioner of Transportation*
Todd Long, *Director of Planning*
Gerald M. Ross, *Deputy Commissioner of Transportation and Chief Engineer*
Kate Pfirman, *Treasurer of Transportation*

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This Preliminary Official Statement in its entirety, including all appendices, is available electronically from the Authority by arrangement between the Authority and i-Deal Prospectus LLP via the Internet at www.iDealProspectus.com or by physical delivery from the Authority by contracting the Authority at 404-893-6000.

OFFICIAL STATEMENT

$355,135,000*
STATE ROAD AND TOLLWAY AUTHORITY
STATE OF GEORGIA (FULL FAITH AND CREDIT)
GUARANTEED REVENUE REFUNDING BONDS

$203,460,000*	$151,675,000*
Series 2011A	Series 2011B

INTRODUCTION

The purpose of this Official Statement, which includes the cover page and the Appendices hereto, is to furnish certain information in connection with the sale by the State Road and Tollway Authority of $355,135,000* in aggregate principal amount of its State of Georgia (Full Faith and Credit) Guaranteed Revenue Refunding Bonds, Series 2011 (the "Bonds"), consisting of $203,460,000* in aggregate principal amount of its State of Georgia (Full Faith and Credit) Guaranteed Revenue Refunding Bonds, Series 2011A (the "2011A Bonds") and $151,675,000* in aggregate principal amount of its State of Georgia (Full Faith and Credit) Guaranteed Revenue Refunding Bonds, Series 2011B (the "2011B Bonds").

This Introduction is not a summary of this Official Statement and is intended only for quick reference. It is only a brief description of and guide to, and is qualified in its entirety by reference to, more complete and detailed information contained in the entire Official Statement, including the cover page and the Appendices, and the documents summarized or described herein. Potential investors should fully review the entire Official Statement. The offering of the Bonds to potential investors is made only by means of the entire Official Statement, including the Appendices hereto. No person is authorized to detach this Introduction from the Official Statement or to otherwise use it without the entire Official Statement, including the Appendices hereto.

The Authority

The State Road and Tollway Authority (the "Authority"), the issuer of the Bonds, is a public corporation created and existing under the laws of the State of Georgia (the "State"). For more complete information, see **"THE AUTHORITY"** herein.

Georgia Department of Transportation

The Georgia Department of Transportation ("GDOT") administers the State's highway system. For more complete information, see **"GEORGIA DEPARTMENT OF TRANSPORTATION"** herein.

The Trustee

U.S. Bank National Association, Atlanta, Georgia (the "Trustee"), will act as trustee, as bond registrar, and as paying agent for Bonds of each series under the respective Indenture for such series described below.

Purpose of the Bonds

The 2011A Bonds are being issued by the Authority for the purpose of (i) refunding $___________* in aggregate principal amount of its State of Georgia Guaranteed Revenue Bonds, Series 2001 (the "2001 Bonds") maturing March 1, 20__ to 20__and (ii) paying a portion of the costs of issuing the Bonds as further described herein. The 2011B Bonds are being issued by the Authority for the purpose of (i) refunding $___________* in aggregate principal amount of its State of Georgia Guaranteed Revenue Bonds, Series 2003 (the "2003 Bonds") maturing October 1, 20__ to 20__ and (ii) paying a portion of the costs of issuing the Bonds as further described herein. For more complete information, see **"PLAN OF FINANCING"** herein.

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* Throughout this Preliminary Official Statement, including the appendices, the asterisk indicates information that is preliminary and subject to change.

Security and Sources of Payment for the Bonds

THE BONDS WILL BE GUARANTEED BY THE STATE AND WILL BE ENTITLED TO THE FULL FAITH, CREDIT AND TAXING POWER OF THE STATE FOR PAYMENT IN ACCORDANCE WITH THEIR TERMS.

The 2011A Bonds are special limited obligations of the Authority payable solely from and secured on a parity with the unrefunded 2001 Bonds by a pledge of and lien on the funds specified in the Trust Indenture, dated as of December 1, 2001, as supplemented by the First Supplemental Trust Indenture, dated as of March 1, 2011 (as so supplemented, the "2001 Indenture"), between the Authority and U.S. Bank National Association, as successor trustee (the "Trustee"). The 2011B Bonds are special limited obligations of the Authority payable solely from and secured on a parity with the unrefunded 2003 Bonds by a pledge of and lien on the funds specified in the Trust Indenture, dated as of October 1, 2003, as supplemented by the First Supplemental Trust Indenture, dated as of March 1, 2011 (as so supplemented, the "2003 Indenture" and, together with the 2001 Indenture, the "Indentures"), between the Authority and the Trustee. Pledged funds for each series consist primarily of a portion of the proceeds of the motor fuel taxes imposed by the State, which proceeds have been directed by the State to the Authority. Pledged funds do not include revenues to be derived by the Authority from the ownership or operation of its existing toll roads, any federal-aid highway funds that the Authority may receive, or any other assets of the Authority, all as further described herein.

The 2011A Bonds and the unrefunded 2001 Bonds (collectively the "2001 Indenture Bonds"), on the one hand, and the 2011B Bonds and the unrefunded 2003 Bonds (collectively, the "2003 Indenture Bonds"), on the other, are not cross-collateralized or cross-defaulted. The 2001 Indenture Bonds are not secured by a lien on the funds securing the 2003 Indenture Bonds, and the 2003 Indenture Bonds are not secured by a lien on the funds securing the 2001 Indenture Bonds. Nonetheless, **all of the 2001 Indenture Bonds and all of the 2003 Indenture Bonds are (1) payable from pledged revenues consisting primarily of a portion of the motor fuel taxes imposed by the State and (2) guaranteed by the State and will be entitled to the full faith, credit, and taxing power of the State for payment in accordance with their terms.**

Pursuant to the 2001 Indenture, the Authority has assigned and pledged to the Trustee, for the benefit of the owners of the 2011A Bonds, the unrefunded 2001 Bonds, and any Additional Parity Bonds hereafter issued under the 2001 Indenture, all of its right, title, and interest in and to the Pledged Revenues under the 2001 Indenture (as defined in **"SUMMARY OF INDENTURES - Certain Definitions"** in Appendix C hereto and as described below). Pursuant to the 2003 Indenture, the Authority has assigned and pledged to the Trustee, for the benefit of the owners of the 2011B Bonds, the unrefunded 2003 Bonds, and any Additional Parity Bonds hereafter issued under the 2003 Indenture, all of its right, title, and interest in and to the Pledged Revenues under the 2003 Indenture. Pledged Revenues, in each case, consist primarily of a portion of the proceeds of the motor fuel taxes imposed by the State and appropriated pursuant to the Constitution of the State of Georgia for all activities incident to maintaining an adequate system of roads and bridges in the State, which proceeds are transferred to the Authority from time to time pursuant to separate Joint Resolutions, as hereinafter defined, adopted in connection with the issuance of the 2001 Bonds and the 2003 Bonds. Pursuant to the Joint Resolutions, the State Transportation Board has directed GDOT to transfer to the Authority so much of the net proceeds of the motor fuel taxes received by GDOT in each fiscal year as is necessary to enable the Authority to pay the principal of and interest on the respective Bonds when due.

Each Indenture provides that the Authority may issue additional revenue bonds secured by a lien on the Trust Estate thereunder on a parity with the Bonds issued thereunder, upon the terms and subject to the conditions set forth in such Indenture. The 2011A Bonds are being issued pursuant to such provisions contained in the 2001 Indenture, and the 2011B Bonds are being issued pursuant to such provisions contained in the 2003 Indenture. The 2011A Bonds will be equally and ratably secured on a parity basis under the 2001 Indenture with $___________* in aggregate principal amount of the 2001 Bonds that are not being refunded. The 2011B Bonds will be equally and ratably secured on a parity basis under the 2003 Indenture with $___________* in aggregate principal amount of the 2003 Bonds that are not being refunded.

For more complete and detailed information, see **"SECURITY AND SOURCES OF PAYMENT FOR THE BONDS"** and **"INFORMATION CONCERNING THE STATE'S MOTOR FUEL TAXES"** herein.

Description of the Bonds

Redemption. The 2011 Bonds are not subject to redemption prior to maturity. See **"THE BONDS - Redemption"** herein.

Denominations. The Bonds are issuable in denominations of $5,000 or any integral multiple thereof.

Book-Entry Bonds. Each of the Bonds for each series will be issued as fully registered certificates in the denomination of one certificate per aggregate principal amount of the stated maturity thereof, and, when issued, will be registered in the name of Cede & Co., as nominee for The Depository Trust Company ("DTC"), New York, New York, an automated depository for securities and clearing house for securities transactions, which will act as securities depository for the Bonds. Purchasers will not receive certificates representing their ownership interest in the Bonds purchased. Purchases of beneficial interests in the Bonds will be made in book-entry only form (without certificates), in authorized denominations, and, under certain circumstances as more fully described in this Official Statement, such beneficial interests are exchangeable for one or more fully registered certificates of the same series of like principal amount and maturity in authorized denominations. For more complete information, see **"THE BONDS - Book-Entry Only System"** herein and **"SUMMARY OF INDENTURES - Issuance of Bonds; Global Form"** in Appendix C hereto.

Payments. So long as DTC or its nominee, Cede & Co., is the registered owner of the Bonds, payments of the principal of, premium, if any, and interest on the Bonds will be made directly to Cede & Co., which will remit such payments to the DTC participants, which will in turn remit such payments to the beneficial owners of the Bonds.

For a more complete description of the Bonds, see **"THE BONDS"** herein.

Tax Exemption

In the opinion of Bond Counsel, under existing laws, regulations, and judicial decisions and assuming continued compliance with certain tax covenants, interest on the Bonds is exempt from present State of Georgia income taxation, is excluded 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 federal alternative minimum tax imposed on certain corporations. See Appendix F hereto for the form of opinion Bond Counsel proposes to deliver in connection with the issuance of the Bonds. For a more complete discussion of such opinion 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 MATTERS - Opinion of Bond Counsel** and **-Bond Premium"** herein.

Professionals Involved in the Offering

Certain legal matters pertaining to the Authority and its authorization and issuance of the Bonds are subject to the approving opinion of Sutherland Asbill & Brennan LLP, Atlanta, Georgia, Bond Counsel. Copies of such opinion will be available at the time of delivery of the Bonds, and a copy of the proposed form of such opinion is attached as Appendix F hereto. Certain legal matters will be passed on for the Authority by its disclosure counsel, McKenna Long & Aldridge LLP, Atlanta, Georgia. Public Resources Advisory Group, New York, New York, has been engaged as Financial Advisor to the Authority in connection with the issuance of the Bonds.

Legal Authority

The Bonds are being issued and secured pursuant to the authority granted by the Constitution and laws of the State and under the provisions of (1) in the case of the 2011A Bonds, a Joint Resolution (the "2001 Joint Resolution") adopted by the State Transportation Board on November 15, 2001, and by the members of the Authority on November 19, 2001, and in the case of the 2011B Bonds, a Joint Resolution (the "2003 Joint Resolution") adopted by the State Transportation Board on September 10, 2003, and by the members of the Authority on September 18, 2003, (2) a resolution adopted by the State Transportation Board on January 20, 2010, and (3) a Bond Resolution to be adopted by the members of the Authority on March 10, 2011 (the "Bond Resolution"). The issuance of the Bonds and the guarantee thereof in accordance with the Constitution and laws of the State are expected to be approved by the Georgia State Financing and Investment Commission (the "Commission") by a resolution adopted on March 10, 2011 (the "Commission Resolution").

Offering and Delivery of the Bonds

The Bonds are offered when, as, and if issued by the Authority, subject to prior sale and to withdrawal or modification of the offer without notice. The Bonds in definitive form are expected to be delivered to, or held in safekeeping for, The Depository Trust Company, New York, New York on or about March 31, 2011.

Continuing Disclosure

In order to assist the underwriters in complying with Securities and Exchange Commission Rule 15c2-12(b)(5) (the "Rule"), (a) the Authority has covenanted in the Indenture for each series and will covenant in a Continuing Disclosure Certificate, in substantially the form attached as Appendix D hereto, for the benefit of the beneficial owners of the Bonds to provide certain financial information and operating data relating to the Authority by not later than 270 days after the end of each fiscal year of the Authority, and to provide notices of the occurrence of certain enumerated events, and (b) the State has covenanted in the Commission Resolution and will covenant in a Continuing Disclosure Certificate, in substantially the form attached as Appendix E hereto, for the benefit of the beneficial owners of the Bonds to provide certain financial information and operating data relating to the State by not later than one year after the end of each fiscal year of the State, and to provide notices of the occurrence of certain enumerated events.

The annual reports provided in accordance with such documents will be filed with the Municipal Securities Rulemaking Board (the "MSRB") via the MSRB's Electronic Municipal Market Access System ("EMMA"). The notices of enumerated events provided in accordance with such documents will be filed with the MSRB via EMMA. The specific nature of the information to be contained in such annual reports or the notices of enumerated events is set forth in the copies of such documents attached as Appendices D and E hereto.

Other Information

This Official Statement, including its appendices, speaks only as of its date, and the information contained herein is subject to change without notice.

This Official Statement 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, 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 Authority disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement contained herein to reflect any change in the Authority's expectations with regard thereto or any change in events, conditions, or circumstances on which any such statement is based.

This Official Statement and the Appendices hereto contain brief descriptions of, among other matters, the Authority, GDOT, the Bonds, the State's motor fuel taxes, the Bond Resolution, the Indentures, the Continuing Disclosure Certificates, and the security and sources of payment for the Bonds. Such descriptions and information do not purport to be comprehensive or definitive. The summaries of various constitutional provisions and statutes, the Bond Resolution, the Indentures, the Continuing Disclosure Certificates, and other documents are intended as summaries only and are qualified in their entirety by reference to such documents, and references herein to the Bonds are qualified in their entirety to the forms thereof included in the Indentures. Copies of the Bond Resolution, the Indentures, the Continuing Disclosure Certificates, and other documents and information are available, upon request and upon payment to the Authority of a charge for copying, mailing, and handling, from Gena Evans, Ph.D., Executive Director, State Road and Tollway Authority, 47 Trinity Avenue, 4th Floor, Atlanta, Georgia 30334, telephone 404-893-6111.

The Bonds have not been registered under the Securities Act of 1933, and the Indentures have not been qualified under the Trust Indenture Act of 1939, in reliance on exemptions contained in such Acts.

This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation, or sale.

No dealer, broker, salesman, or other person has been authorized by the Authority, the Commission, or GDOT to give any information or to make any representations other than those contained in this Official Statement, and, if given or made, such other information or representations should not be relied upon as having been authorized by the Authority, the Commission, or GDOT. Except where otherwise indicated, all information contained in this Official Statement has been provided by the Authority. The information set forth herein has been obtained by the Authority from sources that are believed to be reliable. The information contained herein is subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall under any circumstances create an implication that there has been no change in the affairs of the Authority, the Commission, GDOT, or the other matters described herein since the date hereof or the earlier dates set forth herein as of which certain information contained herein is given.

Neither the United States Securities and Exchange Commission nor any state securities commission has approved or disapproved of the Bonds or reviewed or passed upon the adequacy or accuracy of this Official Statement. Any representation to the contrary may be a criminal offense.

The order and placement of information in this Official Statement, including the appendices, are not an indication of relevance, materiality, or relative importance, and this Official Statement, including the appendices, must be read in its entirety. The captions and headings in this Official Statement are for convenience only and in no way define, limit, or describe the scope or intent, or affect the meaning or construction, of any provision or section in this Official Statement.

THIS OFFICIAL STATEMENT IS BEING PROVIDED TO PROSPECTIVE PURCHASERS EITHER IN BOUND PRINTED FORM ("ORIGINAL BOUND FORMAT") OR IN ELECTRONIC FORMAT ON THE FOLLOWING WEBSITE: _______________. THIS OFFICIAL STATEMENT MAY BE RELIED UPON ONLY IF IT IS IN ITS ORIGINAL BOUND FORMAT OR IS PRINTED IN ITS ENTIRETY DIRECTLY FROM SUCH WEBSITE.

PLAN OF FINANCING

Refunding Program

The Authority expects to use the proceeds of the 2011A Bonds, together with certain amounts on deposit under the 2001 Indenture, to refund $___________* in aggregate principal amount of the 2001 Bonds maturing on March 1, 20__ through and including March 1, 20__ (the "Refunded 2001 Bonds"). The Authority expects to use the proceeds of the 2011B Bonds, together with certain amounts on deposit under the 2003 Indenture, to refund $___________* in aggregate principal amount of the 2003 Bonds maturing on October 1, 20__ through and including October 1, 20__ (the "Refunded 2003 Bonds" and, together with the Refunded 2001 Bonds, the "Refunded Bonds"). Simultaneously with the issuance of each series of the Bonds, the Authority will deposit or cause to be deposited a portion of the proceeds derived from the sale of the Bonds of such series into a special fund for such series (each, a "Refunding Escrow Fund") created under the terms of an Escrow Deposit Agreement for each series, each dated as of March 1, 2011 (each, a "Refunding Escrow Deposit Agreement"), by and between the Authority and U.S. Bank National Association, in its separate capacities as escrow agent (in such capacity, the "Escrow Agent") and as Trustee under the 2001 Indenture or the 2003 Indenture, respectively.

The Refunded Bonds are being refunded to effect interest cost savings to the Authority, which will be passed on to GDOT under the Joint Resolutions, providing additional funds to GDOT to pay the costs of transportation projects. After giving effect to the refunding and defeasance of the Refunded Bonds, the Authority will have outstanding $___________* in aggregate principal amount of revenue bonds under the 2001 Indenture and $___________* in aggregate principal amount of revenue bonds under the 2003 Indenture. Simultaneously with the issuance of the Bonds and the execution and delivery of the Refunding Escrow Deposit Agreements, the Authority will also pay or provide for the payment of the fees incurred and to be incurred by the Escrow Agent and the Trustee with respect to the Refunded Bonds. The sums deposited into each Refunding Escrow Fund will be invested by the 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 each Refunding Escrow Fund, all as set forth in each 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, together with any cash in each Refunding Escrow Fund, to pay the interest on the related 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 each Refunding Escrow Deposit Agreement, the Trustee has agreed to give appropriate notice of the redemption of the Refunded Bonds, as required under the terms of the 2001 Indenture or the 2003 Indenture, as applicable. Moneys available from time to time in the Refunding Escrow Funds shall be held in trust and used by the Escrow Agent to pay the principal and interest and redemption price with respect to the related Refunded Bonds.

Upon issuance of the Bonds and compliance with the requirements of the Refunding Escrow Deposit Agreements for the payment of all the Refunded Bonds now outstanding, pursuant to Article VII, Section IV, Paragraph V of the Constitution, the annual debt service requirements of the Refunded Bonds shall not be included in any constitutional debt limitations.

The Refunding Escrow Obligations and all other amounts held under each Refunding Escrow Deposit Agreement will not be available to pay the principal of, premium, if any, or interest on the Bonds, and the owners of the Bonds will have no claim to any amounts held under either Refunding Escrow Deposit Agreement.

In the opinion of Bond Counsel, based upon the verification by Samuel Klein and Company, Certified Public Accountants, independent certified public accountants, of the mathematical computations used to determine the sufficiency of the escrow deposits (see "MISCELLANEOUS - Verification of Mathematical Computations" herein), the Refunded Bonds will no longer be deemed outstanding under the related Indenture, upon the purchase of the Refunding Escrow Obligations required pursuant to the related Refunding Escrow Deposit Agreement, and the lien of the related Indenture securing the payment of the related Refunded Bonds will be fully and completely discharged.

Sources and Applications of Funds

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

	2011A Bonds	2011B Bonds
Sources of Funds:		
Principal Amount of Bonds	$	$
Original Issue Premium		
Revenue Fund		
Total Sources of Funds	$	$
Applications of Funds:		
Deposit to Refunding Escrow Funds	$	$
Underwriters' Discount		
Costs of Issuance		
Contingency		
Total Applications of Funds	$	$

THE BONDS

General

The 2011A Bonds will be dated as of the date of delivery and will bear interest 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 consisting of twelve 30-day months, payable on September 1, 2011, and semiannually thereafter on March 1 and September 1 of each year and, subject to the redemption provisions described below, will mature on the dates and in the amounts set forth on the inside cover page of this Official Statement. The principal of, and redemption premium, if any, on the 2011A Bonds are payable when due to the registered owners upon presentation at the principal corporate trust office of the Trustee.

The 2011B Bonds will be dated as of the date of delivery and will bear interest 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 consisting of twelve 30-day months, payable on October 1, 2011, and semiannually thereafter on April 1 and October 1 of each year and, subject to the redemption provisions described below, will mature on the dates and in the amounts set forth on the inside cover page of this Official Statement. The principal of, and redemption premium, if any, on the 2011B Bonds are payable when due to the registered owners upon presentation at the principal corporate trust office of the Trustee.

The Bonds are issuable only as fully registered bonds, without coupons, in the denomination of $5,000 or any integral multiple thereof. Purchases of beneficial ownership interests in the Bonds will be made in book-entry form, and purchasers will not receive certificates representing interests in the Bonds so purchased. If the book-entry system is discontinued, Bond certificates will be delivered as described in the Indentures, and beneficial owners will become the registered owners of the Bonds. See "**THE BONDS - Book-Entry Only System**" herein and **"SUMMARY OF THE INDENTURES - Issuance of Bonds; Global Form"** in Appendix C hereto.

Redemption

Optional Redemption. The 2011 Bonds are not subject to redemption prior to maturity.

Book-Entry Only 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 Authority 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.

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 and www.dtc.org.

Purchases of the Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are, 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 will 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 Trustee 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 Trustee, 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 Trustee or the Authority, 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 Trustee, 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 Authority and the Trustee. 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 Indentures.

The Authority 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 Indentures.

THE ABOVE INFORMATION CONCERNING DTC AND DTC'S BOOK-ENTRY SYSTEM HAS BEEN OBTAINED FROM SOURCES THAT THE AUTHORITY BELIEVES TO BE RELIABLE, BUT NEITHER THE AUTHORITY NOR THE STATE TAKES ANY RESPONSIBILITY FOR THE ACCURACY THEREOF. NEITHER THE AUTHORITY NOR THE TRUSTEE 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 INDENTURES 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 MATTERS – Opinion of Bond Counsel, *and* - Bond Premium" herein) shall mean Cede & Co., as aforesaid, and shall not mean the Beneficial Owners of the Bonds.

Principal and Interest Requirements

Set forth below are the principal and interest payment requirements with respect to the Bonds, the unrefunded Series 2001 Bonds, and the unrefunded Series 2003 Bonds. For debt service requirements with respect to all outstanding general obligation and guaranteed revenue debt of the State, as of February 28, 2011, see **"STATE OF GEORGIA DEBT AND REVENUE INFORMATION - Outstanding Debt Service"** in Appendix A hereto.

Year Ending June 30	Unrefunded Prior Bonds (1) Principal	Total Debt Service Requirements	The Bonds (2) Principal	Interest	Total Debt Service Requirements	Combined Total Debt Service Requirements
2011						
2012						
2013						
2014						
2015						
2016						
2017						
2018						
2019						
2020						
2021						
2022						
2023						
2024						
Total						

(1) To be completed upon the sale of the Bonds to reflect the Refunded 2001 Bonds and the Refunded 2003 Bonds.

(2) To be completed upon the sale of the Bonds.

SECURITY AND SOURCES OF PAYMENT FOR THE BONDS

Separate Trust Estates

The 2001 Indenture Bonds and the 2003 Indenture Bonds are not cross-collateralized or cross-defaulted. The 2001 Indenture Bonds are not secured by a lien on the Trust Estate securing the 2003 Indenture Bonds, and the 2003 Indenture Bonds are not secured by a lien on the Trust Estate securing the 2001 Indenture Bonds. The 2001 Indenture and the 2003 Indenture are substantially similar, but separate, contracts, and each Trust Estate, the Pledged Revenues under each Indenture, and the funds established under each Indenture, are separate and distinct and separately secure the Bonds issued under such Indenture. Nonetheless, all of the 2001 Indenture Bonds and the 2003 Indenture Bonds are (1) payable from pledged revenues consisting primarily of a portion of the motor fuel taxes imposed by the State and (2) guaranteed by the State and will be entitled to the full faith, credit, and taxing power of the State for payment in accordance with their terms.

Pledged Revenues

To secure its obligations under the Bonds of each series, the Authority has entered into the related Indenture for such series with the Trustee, pursuant to which the Authority has assigned and pledged to the Trustee for such series, for the benefit of the owners of the Bonds of such series, among other things, all of its right, title, and interest in and to the Pledged Revenues under that Indenture. The Authority has warranted in each Indenture that the Trust Estate thereunder has not been the subject of any previous conveyances, assignments, or pledges by the Authority. The Authority has covenanted and agreed in each Indenture that, except as provided in such Indenture, it has not and will not sell, convey, assign, pledge, encumber, grant a security interest in, or otherwise dispose of, or create or suffer to be created any lien, encumbrance, security interest, or charge upon, any part of the Trust Estate or the Pledged Revenues thereunder or the income and revenues therefrom, or enter into any contract or take any action by which the rights of the Trustee or the Bondholders may be impaired.

Pledged Revenues for each series of Bonds consist primarily of a portion of the proceeds of the motor fuel taxes imposed by the State and appropriated pursuant to Article III, Section IX, Paragraph VI(b) of the Constitution of the State of Georgia for all activities incident to maintaining an adequate system of roads and bridges in the State, which proceeds will be transferred to the Authority pursuant to the Joint Resolution. Pursuant to the 2001 Joint Resolution, the State Transportation Board has directed GDOT to transfer to the Authority so much of the net proceeds of the motor fuel taxes received by GDOT in each fiscal year as is necessary to enable the Authority to pay the principal of and interest on the 2001 Indenture Bonds when due. Pursuant to the 2003 Joint Resolution, the State Transportation Board has directed GDOT to transfer to the Authority so much of the net proceeds of the motor fuel taxes received by GDOT in each fiscal year as is necessary to enable the Authority to pay the principal of and interest on the 2003 Indenture Bonds when due. See **"INFORMATION CONCERNING THE STATE'S MOTOR FUEL TAXES"** herein for a discussion of the motor fuel taxes imposed by the State.

Under the terms of the 2001 Indenture, the 2011A Bonds will be equally and ratably secured as to lien on the Pledged Revenues under the 2001 Indenture on a parity basis with the 2001 Bonds that are not being refunded, which are presently outstanding in the aggregate principal amount of $________*.

Under the terms of the 2003 Indenture, the 2011B Bonds will be equally and ratably secured as to lien on the Pledged Revenues under the 2003 Indenture on a parity basis with the 2003 Bonds that are not being refunded, which are presently outstanding in the aggregate principal amount of $________*.

State Guarantee

The Bonds constitute guaranteed revenue debt of the State within the meaning of Article VII, Section IV, Paragraphs I(f) and III(b)(1) of the Constitution of the State of Georgia of 1983 (the "Constitutional Provision") and the Georgia State Financing and Investment Commission Act, codified as Article 2 of Chapter 17 of Title 50 of the Official Code of Georgia Annotated (the "Commission Act"), and are entitled to the full faith, credit and taxing power of the State.

The Constitutional Provision authorizes the State to incur guaranteed revenue debt by guaranteeing the payment of revenue obligations issued by an instrumentality of the State if such revenue obligations are issued to finance, among other things, land public transportation facilities or systems. Pursuant to the Constitutional Provision, guaranteed revenue debt may not be incurred until legislation has been enacted authorizing the guarantee of the specific issue of revenue obligations then proposed, reciting that the General Assembly of Georgia has determined that such obligations will be self-liquidating over the life of the issue (which determination shall be conclusive), specifying the maximum principal amount of such issue, and appropriating an amount at least equal to the highest annual debt service requirements for such issue. Such legislation was enacted with respect to the Refunded Bonds, and the amount appropriated by the General Assembly pursuant to such legislation was deposited in the special trust fund designated "State of Georgia Guaranteed Revenue Debt Common Reserve Fund" (the "Common Reserve Fund"), as required by the Constitutional Provision.

Article VII, Section IV, Paragraph V of the Constitution of the State of Georgia of 1983 (the "Refunding Provision") authorizes the State to incur guaranteed revenue debt to refund any previously issued guaranteed revenue debt, as long as (1) the term of the refunding issue does not extend beyond the term of the original obligation, (2) the total interest on the refunding issue does not exceed the total interest to be paid on the original obligation, and (3) 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 excluding the debt to be refunded, does not 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. The issuance of guaranteed revenue debt for refunding purposes under authority of the Refunding Provision may be accomplished by resolution of the Commission without any action on the part of the General Assembly, and any appropriation made or required to be made with respect to the obligation being refunded will immediately attach and inure to the benefit of the refunding obligations.

Pursuant to the Commission Resolution, and in accordance with the Refunding Provision and the Commission Act, the Commission has approved the issuance of the Bonds as guaranteed revenue debt of the State which is entitled to the full faith, credit, and taxing power of the State.

Amounts deposited in the Common Reserve Fund are held under the Constitutional Provision, together with all other sums similarly appropriated, as a common reserve for any payments that may be required by virtue of any guarantee entered into in connection with the Bonds or any other issue of guaranteed revenue obligations. The Constitutional Provision requires that the amount to the credit of the Common Reserve Fund shall at all times be at least equal to the aggregate highest annual debt service requirements on all outstanding guaranteed revenue obligations entitled to the benefit of the Common Reserve Fund. If at the end of any fiscal year of the State, moneys in the Common Reserve Fund are in excess of the required amount, the excess moneys will be transferred to the general funds of the State free of the trust of the Common Reserve Fund. If any payments are required to be made from the Common Reserve Fund to meet debt service requirements on guaranteed revenue obligations by virtue of an insufficiency of revenues, the State Treasurer shall pay to the designated paying agent, upon certification by the issuer as to the insufficiency of such revenues, from the Common Reserve Fund, the amount necessary to cure such deficiency. Any payments made from the Common Reserve Fund shall be reimbursed from the general funds of the State within 10 days following the commencement of any fiscal year of the State. The obligation to reimburse the Common Reserve Fund is unconditional and is not subject to annual appropriation. **At the time of the issuance of the Bonds, the Common Reserve Fund will contain at least the required aggregate highest annual debt service**

requirements on all outstanding guaranteed revenue obligations, including the Bonds, entitled to the benefit of the Common Reserve Fund.

The obligation of the State to make reimbursements to the Common Reserve Fund for payments made with respect to the Bonds is subordinate to the payment of debt service on $8,757,975,000 in aggregate principal amount of outstanding (as of February 28, 2011) general obligation debt of the State, and is on a parity with the payment of debt service on $476,765,000 in aggregate principal amount of outstanding (as of February 28, 2011) guaranteed revenue debt of the State, less the Refunded Bonds.

Funds Created by the Indentures and Flow of Funds

The 2001 Indenture and the 2003 Indenture each establishes the following funds to be held by the Trustee:

(a) the State Road and Tollway Authority Transportation Revenue Fund;

(b) the State Road and Tollway Authority Transportation Sinking Fund;

(c) the State Road and Tollway Authority Motor Fuel Tax Guarantee Fund; and

(d) the State Road and Tollway Authority Transportation Rebate Fund.

For a description of the provisions governing the flow of funds under each Indenture, see **"SUMMARY OF INDENTURES - Revenues and Funds"** in Appendix C hereto.

Parity Bonds

Upon satisfaction of certain conditions, each Indenture permits the Authority to issue Additional Parity Bonds without express limit as to principal amount, which will be equally and ratably secured on a parity basis with the other bonds issued under that Indenture. See **"SUMMARY OF INDENTURES - Revenues and Funds --** ***Additional Parity Bonds*****"** in Appendix C hereto.

Limited Obligations

The Bonds of each series are special limited obligations of the Authority payable solely from the Trust Estate pledged under the related Indenture. The Bonds of each series are not payable from and are not secured by a charge, lien, or encumbrance upon any funds or assets of the Authority other than the Trust Estate pledged under the Indenture for such series.

Remedies

For a description of the remedies available to owners of the Bonds of each series under the terms of the related Indenture upon the occurrence of an Event of Default thereunder, see **"SUMMARY OF THE INDENTURES - Events of Default and Remedies"** in Appendix C hereto. The Joint Resolutions do not constitute contracts with the owners of the Bonds and, under Georgia law, may be repealed at any time**.**

The Constitutional Provision provides that the appropriate state fiscal officer may be required to apply funds held in the Common Reserve Fund as provided in the Constitutional Provision at the suit of any holder of any guaranteed revenue obligations.

If the Authority were to default on the Bonds, the realization of value from the pledge of the Pledged Revenues to secure the payment of such Bonds would depend upon the exercise of various remedies specified by the related Indenture and Georgia law. These remedies may require judicial actions, which are often subject to discretion and delay and which may be difficult to pursue. The enforceability of rights or remedies with respect to the Bonds may be limited by state and federal laws, rulings, and decisions affecting remedies and by bankruptcy, insolvency, or other laws affecting creditors' rights or remedies heretofore or hereafter enacted.

Section 36-80-5 of the Official Code of Georgia Annotated provides that no authority created under the Constitution or laws of the State shall be authorized to file a petition for relief from payment of its debts as they mature or a petition for composition of its debts under any federal statute providing for such relief or composition or otherwise to take advantage of any federal statute providing for the adjustment of debts of political subdivisions and public agencies and instrumentalities. Section 36-80-5 of the Official Code of Georgia Annotated also provides that no chief executive or other governmental officer, governing body, or organization shall be empowered to cause or authorize the filing by or on behalf of any authority created under the Constitution or laws of the State of any petition for relief from payment of its debts as they mature or a petition for composition of its debts under any federal statute providing for such relief or composition or otherwise to take advantage of any federal statute providing for the adjustment of debts of political subdivisions and public agencies and instrumentalities. Section 36-80-5 of the Official Code of Georgia Annotated does not constitute a statutory covenant with the owners of the Bonds and may be repealed at any time by the General Assembly of Georgia.

THE AUTHORITY

Introduction

The State Road and Tollway Authority is a body corporate and politic and an instrumentality and public corporation created and existing under the laws of the State of Georgia, particularly Article 2 of Chapter 10 of Title 32 of the Official Code of Georgia Annotated (the "Authority Act). The Authority, originally known as the State Toll Bridge Authority, was created by an Act of the General Assembly of the State of Georgia, which became effective on March 2, 1953. **The Authority has no taxing power**.

Governing Body

The affairs of the Authority are conducted by five members. Under the Authority Act, the members of the Authority are the Governor, the Commissioner of Transportation, the Director of the Office of Planning and Budget, one member to be appointed by the Lieutenant Governor and to serve during the term of office of the Lieutenant Governor and until a successor is duly appointed and qualified, and one member to be appointed by the Speaker of the House of Representatives and to serve during the term of office of the Speaker of the House of Representatives and until a successor is duly appointed and qualified.

Under the Authority Act, the members of the Authority elect a Chairman from the membership of the Authority.

Information concerning the current members of the Authority is set forth below.

Name and Office Held	Expiration of Term	Public Office Held or Principal Occupation
Nathan Deal, *Chairman*	January 12, 2015	Governor
Debbie Dlugolenski	Ex Officio[1]	Director of Governor's Office of Planning and Budget
Vacant	At the pleasure of the Speaker of the House of Representatives	
Vance C. Smith, Jr.	Ex Officio[2]	Commissioner of Georgia Department of Transportation
Joe Wood, Jr.	At the pleasure of the Lieutenant Governor	President and Partner, Turner, Wood & Smith Insurance Agency

[1]Serves at the pleasure of the Governor.
[2] Serves at the pleasure of the State Transportation Board.

The members of the Authority conduct special called meetings when needed in Atlanta, Georgia. Under the Authority Act, three members of the Authority constitute a quorum necessary for the transaction of business, and a majority vote of those present at any meeting at which there is a quorum is sufficient to do and perform any action permitted to the Authority by the Authority Act. Under the Authority Act, the members of the Authority are not entitled to compensation for their services but are entitled to be reimbursed for their actual expenses necessarily incurred in the performance of their duties.

Staff

The Authority conducts its operations through its staff.

Gena L. Evans, *Ph.D.*, was named the Executive Director of the Authority in February 2008 and also serves as the Secretary to the Authority. Dr. Evans earned a bachelor's degree in 1992 and doctorate in 2001 in civil engineering from the Georgia Institute of Technology. Dr. Evans previously has served as the Commissioner of Transportation, the State Property Officer, which included the executive directorship of the State Properties Commission, the executive directorship of the Georgia Building Authority and the directorship of the Construction Division and Executive Secretary of the Georgia State Financing and Investment Commission. Dr. Evans served as Chief Engineer for the Georgia Building Authority. She also worked in the private sector, managing construction across the U.S. for LaSalle Partners. Dr. Evans served as an Assistant Professor of construction engineering and management in the Civil Engineering Department at the Georgia Institute of Technology.

Henry Li was named the Treasurer/Director of Administration of the Authority in August 2008. Mr. Li received a Bachelor of Arts Degree in Science in 1985 and a Masters Degree in Education Administration in 1990 from Central China Normal University (CCNU). Mr. Li received a Masters of Business Administration Degree from Georgia Southern University in 1998. Mr. Li previously served for more than eight years as a senior manager at two transit agencies: the Metropolitan Atlanta Rapid Transit Authority and the San Francisco Municipal Transportation Agency. Prior to holding those positions, Mr. Li served as the Director of Finance & Administration for an international company, Wuhan Hefong Inc. Before joining Hefong, Mr. Li was employed by Central China Normal University (CCNU) as the head of the Division of Property & Housing Administration and as a college instructor. Mr. Li is a Certified Public Accountant.

Operations

The Authority presently possesses and operates one toll project: a 6.2-mile segment of State Highway 400 in the metropolitan Atlanta area (the "Georgia 400 Toll Project"). Presently, an average of approximately 110,577 vehicles per day travel the Georgia 400 Toll Project, generating an average of approximately $55,289 of toll collections per day.

As a result of amendments to the Authority Act that were made by the General Assembly of the State of Georgia in 2001, the Authority's mission was significantly broadened to include the financing of the acceleration and expansion of the State Transportation Improvement Program. Since 2001, the Authority has issued approximately $2.7 billion of revenue obligations, of which approximately $1.9 billion remains outstanding, to finance projects for the benefit of GDOT.

GEORGIA DEPARTMENT OF TRANSPORTATION

Introduction

The Georgia Department of Transportation ("GDOT") is an agency of the State established for the purpose of providing for the organization, administration, and operation of an efficient, modern system of public roads and other modes of transportation. The governance, powers, and authority of GDOT are provided for under Section IV of Article IV of the Constitution of the State of Georgia (the "GDOT Constitutional Provision") and the Georgia Code of Public Transportation, codified as Title 32 of the Official Code of Georgia Annotated (the "Transportation Code"). The Transportation Code provides that GDOT shall consist of the State Transportation Board, the Commissioner of Transportation, the Director of Planning, the Deputy Commissioner of Transportation, the Chief Engineer, the Treasurer and the Assistant Treasurer of Transportation, and such subordinate employees as may be deemed necessary by the Commissioner of Transportation or the Director of Planning.

Governing Body

The GDOT Constitutional Provision provides that there shall be a State Transportation Board composed of as many members as there are congressional districts in Georgia and that the member of the State Transportation Board from each congressional district shall be elected for a term of five years by a majority vote of the members of the House of Representatives and Senate whose respective districts are embraced or partly embraced within such congressional district meeting in caucus.

The Transportation Code provides that each member of the State Transportation Board must be a resident of the congressional district he or she represents and may not be an officer, agent, official, or employee of the State or of any county, municipality, or other political subdivision thereof or a member of the General Assembly. There are presently 13 congressional districts in Georgia.

Under the Transportation Code, the members of the State Transportation Board elect a Chairman and a Vice Chairman from the membership of the State Transportation Board. The Transportation Code charges the State Transportation Board with the general control and supervision of GDOT.

Information concerning the current members of the State Transportation Board is set forth below.

Name and Office Held	Expiration of Term	Congressional District Represented
Rudy Bowen *Chairman*	April 15, 2015	7th
Johnny Floyd, *Vice Chairman*	April 15, 2013	2nd
Jay Shaw	April 15, 2015	1st
Sam M. Wellborn	April 15, 2012	3rd
Robert L. Brown, Jr.	April 15, 2016	4th
Emory C. McClinton	April 15, 2013	5th
Brandon L. Beach	April 15, 2014	6th
Jim Cole	April 15, 2012	8th
Emily Dunn	April 15, 2013	9th
Don Grantham	April 15, 2014	10th
David Doss	April 15, 2011	11th
Bobby Parham	April 15, 2013	12th
Dana Lemon	April 15, 2013	13th

The Transportation Code provides that the State Transportation Board must meet in regular session at least one day each month, at least nine of which regular sessions are to be held at the headquarters of GDOT in Atlanta, that a majority of the State Transportation Board constitutes a quorum for the transaction of all business including election or removal of the Commissioner of Transportation, and that, except as otherwise provided in the Transportation Code, any power of the State Transportation Board may be exercised by a majority vote of those members present at any meeting at which there is a quorum. The Transportation Code provides that the members of the State Transportation Board shall receive no salary but shall receive specified per diem and transportation costs.

Staff

GDOT conducts its operations through its staff. The GDOT Constitutional Provision provides that the State Transportation Board must select a Commissioner of Transportation, who shall be the chief executive officer of GDOT. The Transportation Code authorizes the Commissioner of Transportation to appoint a Deputy Commissioner of Transportation, a Chief Engineer, a Treasurer of Transportation, and an Assistant Treasurer of Transportation, each to serve at the pleasure of the Commissioner of Transportation. The Transportation Code permits the Commissioner of Transportation or the Deputy Commissioner of Transportation to simultaneously serve as Chief Engineer. The Transportation Code authorizes the Commissioner of Transportation to employ, discharge, promote, supervise, and determine the compensation of such personnel as he or she may deem necessary or useful to the effective operation and administration of GDOT. The Transportation Code provides that there must be a Director of Planning appointed by the Governor, subject to approval by a majority vote of the Transportation Committee of the House of Representatives, who shall serve during the term of the Governor by whom he or she is appointed and at the pleasure of the Governor. The Transportation Code provides that there shall be a Planning Division of GDOT, directed and staffed by the Director of Planning, which shall be GDOT's principal unit for developing the state transportation improvement program and the state-wide strategic transportation plan and coordinating transportation policies, planning, and programs related to design, construction, maintenance, operations, and financing of transportation, under the supervision of the Director of Planning. The Transportation Code also provides that there shall be an Engineering Division of GDOT to be supervised by the Chief Engineer, a Finance Division of GDOT to be supervised by the Treasurer of Transportation, an Administration Division of GDOT to be supervised by the Deputy Commissioner of Transportation, and a Local Grants Division to be supervised by an appointee serving at the pleasure of the Commissioner of Transportation and that the duties, responsibilities, and personnel of each such division shall be as established by the Commissioner of Transportation.

Vance C. Smith, Jr., age 58, is the Commissioner of Transportation. He was appointed to the position by the State Transportation Board on June 25, 2009 and previously served as a member of the Georgia House of Representatives since 1993, representing the 129th District of Georgia. He was Chairman of the House

Transportation Committee from 2004-2009 and also served as a member of the Appropriations, Economic Development & Tourism and Rules committees. In addition to his career in public service, he managed a family-owned construction and earth-moving business which was in operation for nearly 60 years, specializing in golf course development, among other projects. Mr. Smith received a Bachelor degree in Business in 1974 from Columbus State University.

Todd I. Long, age 44, is the Director of Planning, a position which is appointed by the Governor. He began his career with GDOT in 1990. In August 2008, Mr. Long became director of Business Operations for the Georgia Regional Transportation Authority. Mr. Long received a Bachelor of Science degree in Civil Engineering in 1989 and a Master's degree in Civil Engineering in 1990, both from the Georgia Institute of Technology. He is a certified Professional Engineer and a certified Professional Traffic Operations Engineer in Georgia.

Gerald M. Ross, P.E., age 51, has been Deputy Commissioner of Transportation since July 16, 2009 as well as the Chief Engineer since August, 2007. Prior to holding these joint appointments, Mr. Ross was interim Commissioner of Transportation from February 26, 2009 until June 25, 2009, when Commissioner Smith was elected as Commissioner of Transportation. Mr. Ross has been an employee of GDOT since 1982 and has held various positions as an engineer in the Office of Traffic Operations, Urban Design, and Road Design. In January 2005 he was named Division Director of Planning, Data and Intermodal Development until his appointment as Chief Engineer. Mr. Ross received his Bachelor of Science degree in Civil Engineering from Tennessee Tech University. He is a Registered Professional Engineer in Georgia.

Kate Pfirman, age 51, has been the Treasurer of Transportation since February 1, 2009. Over her 15 year career with the State, she has held various positions, including Chief Administrative Officer at Georgia Technology Authority, Division Director at the Governor's Office of Planning and Budget, and Deputy Commissioner at the Department of Human Resources. She received a B.A. degree in Economics from Emory University and a Master's degree in Accounting from The American University. Ms. Pfirman is a Certified Public Accountant.

Operations

GDOT owns and operates the hereinafter described State Highway System, including 52.5 centerline miles of HOV lanes and 96 park and ride lots. GDOT also owns and operates 16 State bicycle and pedestrian routes totaling approximately 2,943 miles and owns and leases to others approximately 473 miles of railroad. GDOT provides grants for the hereinafter described County Road Systems and Municipal Street Systems, railroads, public airports, and urban and rural transit systems.

GDOT's total budget for the fiscal year ended June 30, 2010, which includes appropriated motor fuel taxes, reimbursements and other assistance from the federal government ("Federal Transportation Funds"), and general funds, was approximately $3.1 billion.

GDOT has approximately 4,750 employees, who oversee the implementation of the various transportation programs in Georgia. GDOT is divided into seven districts across Georgia, each headed by a District Engineer who is responsible for operating and maintaining the transportation system at the local level.

State Highway System

The Transportation Code divides and classifies the public roads of Georgia into the following three classes for purposes of jurisdiction and administration:

- State Highway System,
- County Road Systems, and
- Municipal Street Systems.

GDOT has jurisdiction over the State Highway System, the counties of Georgia have jurisdiction over the County Road Systems, and the municipalities of Georgia have jurisdiction over the Municipal Street Systems.

As of 2008, the State Highway System contained approximately 18,094 miles of highways, the County Road Systems contained approximately 84,559 miles of roads, and the Municipal Street Systems contained approximately 14,583 miles of streets. Although only 15 percent of Georgia's public roads fall under GDOT jurisdiction, such roads carry approximately 61 percent of the total vehicular miles traveled in the state.

Funding the State Highway System

GDOT has two primary sources of revenue to fund the construction and maintenance of the State Highway System: (1) a 7½¢ per gallon motor fuel tax on distributors and motor carriers and a second motor fuel tax equal to

3% of the retail sale price of motor fuel (see **"INFORMATION CONCERNING THE STATE'S MOTOR FUEL TAXES"** herein), and (2) Federal Transportation Funds.

Article III, Section IX, Paragraph VI(b) of the Constitution of the State of Georgia appropriates motor fuel taxes received by the State for all activities incident to providing and maintaining an adequate system of public roads and bridges in Georgia, as authorized by laws enacted by the General Assembly of Georgia, and for grants to counties by law authorizing road construction and maintenance, as provided by law authorizing such grants. See **"INFORMATION CONCERNING THE STATE'S MOTOR FUEL TAXES"** herein.

The Transportation Code continually appropriates Federal Transportation Funds received by the State (except those that may be directed by the federal government to the Authority) to GDOT.

The Transportation Code requires GDOT to budget over specified five-year periods at least 80% of motor fuel taxes and Federal Transportation Funds appropriated to GDOT for expenditure equally among the congressional districts of Georgia. If funding becomes available to GDOT that could not otherwise be allocated among congressional districts due to the allocation requirements described above, the State Transportation Board may upon approval by a majority of its membership authorize a waiver of such allocation requirement. Such waiver will be valid only for the fiscal year in which it was granted. The Transportation Code permits the State Transportation Board upon approval by two-thirds of its membership to authorize a reduction in the share of such funds allocated to any congressional district upon finding that such district does not have sufficient projects available for expenditure of such funds.

In fiscal year 2010, GDOT received approximately $682 million of motor fuel taxes and $1.087 billion of Federal Transportation Funds inclusive of $824 million of federal stimulus funding. In fiscal year 2010, debt service on general obligation debt for public road work was $228 million, and GDOT's general operating expenses related to the State Highway System and operation and maintenance expenditures for the State Highway System were approximately $408 million. Operation and maintenance includes resealing, patching, guardrail and shoulder repair, and other work required on a frequent basis to assure the continued safe operation of the State Highway System. In fiscal year 2010, GDOT expended approximately $1.634 billion for capital improvements to the State Highway System.

State-wide Transportation Improvement Program

The Transportation Code requires the Director of Planning and the Planning Division of GDOT to, among other things, develop the State-wide Strategic Transportation Plan and the State-wide Transportation Improvement Program (the "STIP") and develop an annual capital construction project list to be reviewed by the Governor and submitted to the General Assembly for consideration in the budget. The Transportation Code requires the State-wide Strategic Transportation Plan and the STIP to be reviewed and approved by the Governor and then submitted to the State Transportation Board for approval.

The Director of Planning and the Planning Division of GDOT has developed a four-year STIP and, together with the Authority's staff, a plan to finance the STIP, which relies on a combination of proceeds of general obligation bonds to be issued by the State, revenue obligations to be issued by the Authority, investment earnings on such proceeds, county and other local funds, Federal Transportation Funds, and motor fuel taxes to be collected by the State. The STIP is a listing of planned project activity over a four-year period and is developed from the State-wide Strategic Transportation Plan under guidelines provided by the Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users ("SAFETEA-LU"), passed by the United States Congress in 2005. No project can advance using federal surface transportation funds if it is not included in the STIP. The STIP must be updated at least every other year to remain valid.

Projects listed in the STIP are identified through the transportation planning process and include urban and rural transportation projects. Urban projects are incorporated without change from the Transportation Improvement Programs ("TIPs") developed by Metropolitan Planning Organizations ("MPOs") in each metropolitan area in Georgia and adopted by the MPO Policy Committees. The Governor or his designee approves the TIPs. GDOT has responsibility for identifying projects for inclusion in the STIP in rural areas.

The STIP is multi-modal and includes highway and bridge, bicycle, pedestrian, transportation enhancement activities, and public transportation (transit) projects. Projects in the STIP emphasize the maintenance, safety, and improvement of existing transportation facilities and public transportation systems. A major component of the STIP development is the public involvement process that reaches out to citizens, local officials, advocacy groups, chambers of commerce, transportation providers, and other stakeholders.

Project-related costs, such as preliminary engineering, right of way, and construction, are included in the STIP for highways, and capital and operating costs are included in the STIP for public transit. Cost estimates for individual projects are based on the best available engineering estimates. These costs may change as a project progresses from preliminary engineering to the purchase of right of way to construction. If these increased costs are the result of a change in the original scope of the project, the STIP is amended, after public comments are considered. If the increased costs are based on updated engineering improvements, and not a change in the actual work, no amendment to the STIP is necessary.

The STIP is fiscally constrained and includes only those projects that have funding available or that have a reasonable expectation of obtaining funds. Federal funds for the STIP are program estimates and will not be final until after the federal budget is implemented as of October 1 of each year.

The present STIP was approved by the Governor and the State Transportation Board in September 2010 and represents approximately $6.97 billion of projects to be undertaken between fiscal year 2011 and fiscal year 2014.

INFORMATION CONCERNING THE STATE'S MOTOR FUEL TAXES

Description

Article 1 of Chapter 9 of Title 48 of the Official Code of Georgia Annotated, known as the Motor Fuel Tax Law, imposes two motor fuel taxes (collectively the "Motor Fuel Taxes"): (1) an excise tax at the rate of 7½¢ per gallon on distributors who sell or use motor fuel within the State (the "First Motor Fuel Tax") and (2) an excise tax at the rate of 3% of the retail sale price, less the First Motor Fuel Tax, upon the sale, use, or consumption of motor fuel in the State (the "Second Motor Fuel Tax"). The Motor Fuel Tax Law defines "motor fuel" generally to mean any source of energy that can be used for propulsion of motor vehicles on the public highways, including, but not limited to, gasoline, fuel oils, and compressed petroleum gas.

Exemptions

The Motor Fuel Taxes are not imposed upon the following sales of motor fuel by duly licensed distributors: bulk sales to other distributors, certain sales for export from the State, sales to the United States for its use, sales of aviation gasoline to aviation gasoline dealers (except for 1¢ per gallon of the First Motor Fuel Tax and all of the Second Motor Fuel Tax), bulk sales of compressed petroleum gas or special fuel to duly licensed consumer distributors, sales of compressed petroleum gas or special fuel to consumers who have no highway use of the fuel, sales of fuel oils, compressed petroleum gas, or special fuel directly to consumers to be used for heating purposes only, sales of dyed fuel oils to consumers for other than highway use, and, until June 30, 2012, sales of motor fuel for public mass transit vehicles. The Motor Fuel Taxes are also not imposed on motor fuel (except for gasoline) used by duly licensed distributors for nonhighway purposes. The Motor Fuel Tax Law entitles certain persons using gasoline for agricultural purposes to a refund of the First Motor Fuel Tax, except 1¢ per gallon. The Motor Fuel Tax Law also entitles certain agricultural businesses to a refund of 90% of the Motor Fuel Taxes paid on purchases of diesel fuel. Lastly, the Motor Fuel Tax Law entitles retail dealers to a refund of two percent of the first 5½¢ per gallon of the First Motor Fuel Tax as compensation to cover losses for evaporation, shrinkage, and spillage.

Collection Procedures

For the purpose of determining the amount of First Motor Fuel Tax due, the Motor Fuel Tax Law requires each distributor to file with the Revenue Commissioner of the State (the "Revenue Commissioner") by the 20th day of each calendar month a report for the preceding month's activities and to pay to the Revenue Commissioner at the time of submitting such report the First Motor Fuel Tax on motor fuel sold or used in the State during the preceding calendar month. The Motor Fuel Tax Law permits each distributor to deduct from its remittances of the First Motor Fuel Tax an allowance of one percent of the First Motor Fuel Tax as compensation to cover expenses incurred in reporting the First Motor Fuel Tax to the Revenue Commissioner, but only if any First Motor Fuel Tax due is paid on or before the 20th day of the month. The Motor Fuel Tax Law imposes a penalty of $50 upon distributors that fail to file monthly reports when due, a penalty of 10% of the unpaid First Motor Fuel Tax plus interest upon distributors that fail to pay the First Motor Fuel Tax when due, and a penalty of 50% of the First Motor Fuel Tax due upon distributors for a false or fraudulent return or a failure to file a return.

The Second Motor Fuel Tax will be generally imposed on the purchaser of motor fuel and will be generally collected by the seller of motor fuel from the purchaser at the time of sale. Sellers of motor fuel will be generally required to file tax returns with the Revenue Commissioner on or before the 20th day of each month, showing taxable sales during the preceding calendar month, and to remit the Second Motor Fuel Tax shown due on the return with the return. Sellers of motor fuel will be allowed a deduction from the Second Motor Fuel Tax timely remitted to the Revenue Commissioner of 3% of the Second Motor Fuel Tax reported due on each monthly return. When any seller fails to make any return or to pay the full amount of the Second Motor Fuel Tax, there will be imposed a penalty to be added to the Second Motor Fuel Tax in the amount of 5% or $5.00, whichever is greater, if the failure is for not more than 30 days and an additional 5% or $5.00, whichever is greater, for each additional 30 days or fraction of 30 days during which the failure continues. The penalty for any single violation will not exceed 25% or $25.00 in the aggregate, whichever is greater.

Permitted Uses

Article III, Section IX, Paragraph VI(b) of the Constitution of the State of Georgia appropriates the Motor Fuel Taxes received by the State for all activities incident to providing and maintaining an adequate system of public roads and bridges in the State, as authorized by laws enacted by the General Assembly of Georgia, and for grants to counties by law authorizing road construction and maintenance, as provided by law authorizing such grants.

The Transportation Code requires Motor Fuel Taxes received by the State, after application to pay debt service on general obligation debt for public road work, to be deposited into the "State Public Transportation Fund" and to be expended to pay in the following order, among other things:

(1) the amount of the highest annual debt service requirement for an issue of guaranteed revenue debt for public road projects into the Common Reserve Fund, upon the issuance of such guaranteed revenue debt;

(2) the costs of operating GDOT and for any emergencies or unusual situations;

(3) the costs necessary to comply with the conditions of federal-aid apportionments to the State for public roads;

(4) as directed from time to time by appropriations acts of the General Assembly of Georgia; and

(5) the costs of maintaining, improving, constructing, and reconstructing the public roads of the State Highway System.

The Transportation Code requires the Planning Division of GDOT and the Director of Planning to develop an allocation formula for:

(1) a state-wide transportation asset management program, in which appropriated funds will be allocated pursuant to the State-wide Strategic Transportation Plan for administration, maintenance, operations, and rehabilitation of infrastructure;

(2) a state-wide transportation asset improvement program, in which funds will be allocated for capital construction projects, including not less than 10 percent nor more than 20 percent of the aggregate allocation from the State Public Transportation Fund for each fiscal year, for a specific itemized and prioritized project list consistent with the STIP; and

(3) a local maintenance and improvement grant program, in which funds will be allocated in each fiscal year by the Local Grants Division of GDOT to local governments as grants, in amounts not less than 10 percent nor more than 20 percent of Motor Fuel Taxes received by the State in the immediately preceding fiscal year.

The Transportation Code provides that funds from the State Public Transportation Fund must be allocated by GDOT pursuant to the formula described above and as appropriated by the General Assembly of Georgia. The Transportation Code requires the Planning Division of GDOT and the Director of Planning to update the allocation formula described above every four years, concurrent with the renewal of the State-wide Strategic Transportation Plan.

Historical Collection Data

Set forth below are historical collections of the Motor Fuel Taxes (net of deductions allowed to dealers) for the past five fiscal years of the State.

Year Ended June 30	First Motor Fuel Tax Collections	Second Motor Fuel Tax Collections
2006	$440,152,234.10	$371,159,975.83
2007	459,182,803.11	468,389,840.65
2008	452,207,906.02	538,155,742.34
2009	454,742,883.79	422,825,680.09
2010	462,535,746.00	385,242,172.00

Source: State of Georgia Department of Revenue

LEGAL MATTERS

Legal Counsel

Certain legal matters relating to the authorization and validity of the Bonds of each series will be subject to the approving opinion of Sutherland Asbill & Brennan LLP, Atlanta, Georgia, Bond Counsel. Copies of such opinions will be available at the time of delivery of the Bonds, and the proposed forms of such opinions are attached hereto as Appendix F. Certain legal matters will be passed on for the Authority by its disclosure counsel, McKenna Long & Aldridge LLP, Atlanta, Georgia.

Pending Litigation

The Authority 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 Authority, 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 Authority or its officials in such capacity are adequately covered by insurance or self-insurance reserves maintained by the Authority or will not have a material adverse effect upon the financial position or results of operations of the Authority. 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.

There is no litigation now pending or, to the knowledge of the Authority or the Commission, threatened against the Authority or the State, respectively, that restrains or enjoins the issuance or delivery of the Bonds, the pledge of the Pledged Revenues to secure the Bonds, or the use of the proceeds of the Bonds or that questions or contests the validity of the Bonds or the proceedings and authority under which they are to be issued and secured. There is no litigation now pending or, to the knowledge of the Authority or the Commission, threatened against the Authority or the Commission, respectively, that contests or questions the creation, organization, or existence of the Authority or the Commission or the title of the present members or other officials of the Authority or the Commission to their respective offices.

Opinion of Bond Counsel

Legal matters incident to the authorization, validity, and issuance of the Bonds of each series are subject to the unqualified approving opinion of Sutherland Asbill & Brennan LLP, Atlanta, Georgia, Bond Counsel, whose opinion will be available at the time of delivery of the Bonds. It is anticipated that the approving opinions will be in substantially the forms attached to this Official Statement as Appendix F.

In the opinion of Bond Counsel, under existing law, interest on the Bonds is excluded 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 Authority 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 Bonds in order that interest thereon be, and continue to be, excludable from gross income for federal income tax purposes. The Authority has covenanted to comply with all such requirements. Failure to comply with certain of such requirements may cause interest on the Bonds to be included in gross income for federal income tax purposes retroactively to the date of issuance of the Bonds.

Bond Counsel expresses no opinion regarding other federal tax consequences arising with respect to the 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 Bonds should be aware that ownership of the Bonds may also 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 Bonds should consult their tax advisors as to collateral federal income tax consequences.

In the opinion of Bond Counsel, under existing law, interest on the Bonds is exempt from present State of Georgia income taxation. 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.

Bond Premium

Certain of the Bonds are being sold at initial offering prices in excess of the principal amount payable thereof. Under the Code, the excess of an owner's cost basis of a bond over the principal amount of such bond (other than a bond held as inventory, stock in trade, or for sale to customers in the ordinary course of business) is generally characterized as "bond premium." For federal income tax purposes, bond premium is amortized over the term of the related bond. An owner will therefore be required to decrease its basis in the Bonds by the amount of amortizable bond premium attributable to each taxable year it holds Bonds. The amount of amortizable bond premium attributable to each taxable year is determined on an actuarial basis at a constant interest rate compounded on each interest payment date. The amortizable bond premium attributable to a taxable year is not deductible for federal income tax purposes. Purchasers of Bonds should consult their own tax advisors with respect to the precise determination for federal income tax purposes of the treatment of bond premium upon sale, redemption, or other disposition of Bonds.

The foregoing is a general discussion of certain federal income tax consequences of bond premium and does not purport to deal with all tax questions that may be relevant to particular investors or circumstances, including purchasers of Bonds in the secondary market. Owners of Bonds should consult their own tax advisors with respect to these issues and with respect to the state and local tax consequences of bond premium.

Validation Proceedings

The State of Georgia will institute proceedings in the Superior Court of Fulton County, Georgia to validate the Bonds and the security therefor. The State of Georgia will be the plaintiff in the proceeding, and the Authority, GDOT, and the Commission will be the defendants. A final judgment confirming and validating the Bonds and the security therefor will be entered before the Bonds are issued and delivered. Under the Authority Act, the judgment of validation will be final and conclusive with respect to the Bonds and against the Authority.

Closing Certificates

At closing of the sale of the Bonds, the Authority and the Commission, on behalf of the State, will each deliver to the purchasers a certificate (1) that no litigation is pending or threatened against the Authority or the State, respectively, that would have a material effect on the issuance or validity of the Bonds or the security for the Bonds or, except as described in this Official Statement, on its financial condition, and (2) that the information contained in this Official Statement relating to the Authority or the State, respectively, does not contain any misstatement of a material fact and does not omit to state any material fact necessary to make the statements herein contained, in light of the circumstances under which they were made, not misleading.

MISCELLANEOUS

Ratings

Moody's Investors Service, Inc. ("Moody's), Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. ("Standard & Poor's"), and Fitch Ratings ("Fitch") have assigned to the Bonds ratings of "___", "___" and "___," respectively. 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 in Appendix D and Appendix E, neither the Authority 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

The Bonds will be offered by the Authority by competitive bid on March 9, 2011, in accordance with the Official Notice of Sale contained in Appendix G. This Preliminary Official Statement has been deemed final as of its date by the Authority in accordance with the meaning and requirements of Securities and Exchange Commission Rule 15c2-12, except for the omission of certain pricing and other information permitted to be omitted pursuant to such Rule. After the award of the Bonds, the Authority will complete the Official Statement so as to be a "final official statement" within the meaning of Rule 15c2-12. The final Official Statement will include, among other matters, the identity of the winning bidders and the managers of the syndicates, if any, submitting the winning bids, the expected selling compensation to underwriters of the Bonds and other information on the interest rates, CUSIPs and offering prices or yields of the Bonds, as supplied by the winning bidder.

Financial Advisor

The Authority has engaged Public Resources Advisory Group, New York, New York, as its Financial Advisor in connection with the issuance of the Bonds.

Verification of Mathematical Computations

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 each Refunding Escrow Fund under the terms of each Refunding Escrow Deposit Agreement to pay when due the principal of and interest on the related Refunded Bonds and (ii) certain mathematical computations supporting the conclusion that the Refunded Bonds and the 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 will be based upon certain information supplied to Samuel Klein and Company, Certified Public Accountants by the Authority.

Additional Information

Use of the words "shall," "must," or "will" in this Official Statement in summaries of documents or laws to describe future events or continuing obligations is not intended as a representation that such event will occur or obligation will be fulfilled but only that the document or law contemplates or requires such event to occur or obligation to be fulfilled.

Any statements made in this Official Statement 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. Neither this Official Statement nor any statement that may have been made orally or in writing is to be construed as a contract with the owners of the Bonds.

CERTIFICATION

The execution and delivery of this Official Statement, and its distribution and use, have been duly authorized and approved by the Authority and the Commission.

STATE ROAD AND TOLLWAY AUTHORITY

By: /s/
Chairman

GEORGIA STATE FINANCING AND INVESTMENT COMMISSION

By: /s/
Secretary

APPENDIX A

STATE OF GEORGIA

DEBT AND REVENUE AND STATISTICAL 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 Constitution of the State of Georgia (the "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 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 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 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, to make loans to counties, municipal corporations, political subdivisions, local authorities and other local government entities for water or sewerage facilities or systems, and to make loans to local government entities 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 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 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 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." No such debt has been incurred under this provision since its enactment.

Article VII, Section IV, Paragraph V of the Constitution (the "Refunding Provision") authorizes the State to incur guaranteed revenue debt to refund any previously issued guaranteed revenue debt in compliance with the requirements of the Refunding Provision. The issuance of guaranteed revenue debt for refunding purposes under authority of the Refunding Provision may be accomplished by resolution of the Commission without any action on the part of the General Assembly.

See "SECURITY FOR THE BONDS" and "APPENDIX B – Basic Financial Statements - Notes to the Financial Statements - Note _ – Budgetary Control and Legal Compliance" herein.

Reserves

With respect to the revenue shortfall reserve and the midyear 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.

f) 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 ending June 30, 1975, through June 30, 2011. The amounts of such general obligation debt and guaranteed revenue debt actually issued 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	Unissued Authorized Indebtedness
Transportation	$ 4,352,935,000	$755,245,000	$ 4,857,375,000	$250,805,000
School Construction	5,161,235,000		4,902,305,000	258,930,000
University Facilities	4,245,158,000		4,181,358,000	63,800,000
World Congress Center	627,530,000		627,530,000	
Human Resources Facilities	338,550,000		337,550,000	1,000,000
Port Facilities	700,115,000		601,765,000	98,350,000
Correctional Facilities	893,480,000		880,730,000	12,750,000
Public Safety Facilities	76,075,000		74,325,000	1,750,000
Georgia Bureau of Investigation	89,165,000		89,165,000	
Georgia Department of Revenue	49,125,000		42,375,000	6,750,000
Department of Labor	53,810,000		53,810,000	
Department of Natural Resources	614,300,000		608,250,000	6,050,000
Technical College System (1)	1,321,257,000		1,278,542,000	42,715,000
Environmental Facilities Auth.	590,000,000	97,470,000	687,470,000	
Dept. of Administrative Services	57,605,000		57,605,000	
Department of Agriculture	76,130,000		76,130,000	
Georgia Building Authority	522,270,000		520,040,000	2,230,000
Stone Mountain Memorial Assn.	48,400,000		48,400,000	
Department of Veterans Services	14,805,000		14,805,000	
Jekyll Island State Park Authority	78,190,000		78,190,000	
Secretary of State	55,050,000		55,050,000	
Department of Defense	28,005,000		24,725,000	3,280,000
Department of Community Affairs	23,500,000		8,200,000	15,300,000
Economic Development	175,065,000		165,065,000	10,000,000
Ga. Emergency Mgmt. Agency	200,000		200,000	
Soil & Water Conservation	11,840,000		6,840,000	5,000,000
Department of Juvenile Justice	284,650,000		279,720,000	4,930,000
Georgia Golf Hall of Fame	6,000,000		6,000,000	
Georgia Forestry Commission	33,335,000		32,325,000	1,010,000
Georgia Agricultural Exposition Auth.	22,345,000		22,345,000	
Other	83,425,000		83,425,000	
Subtotal	20,633,550,000	852,715,000	20,701,615,000	784,650,000
1986B Refunding Bonds	441,575,000		441,575,000	
Less Bonds Refunded by 1986B	-356,325,000		-356,325,000	
1992A Refunding Bonds	169,735,000		169,735,000	
Less Bonds Refunded by 1992A	-158,755,000		-158,755,000	
1993E Refunding Bonds	599,820,000		599,820,000	
Less Bonds Refunded by 1993E	-539,580,000		-539,580,000	
GEFA Series 1997 Refunding		79,890,000	79,890,000	
Less Bonds Refunded by Series 1997		-76,400,000	-76,400,000	
GA 400 Tollway Series 1998		89,020,000	89,020,000	
Less Bonds Refunded by Series 1998		-85,585,000	-85,585,000	
1998E Refunding Bonds	142,425,000		142,425,000	
Less Bonds Refunded by 1998E	-139,115,000		-139,115,000	
2004C Refunding Bonds	458,605,000		458,605,000	
Less Bonds Refunded by 2004C	-466,670,000		-466,670,000	
2005B Refunding Bonds	425,000,000		425,000,000	
Less Bonds Refunded by 2005B	-432,005,000		-432,005,000	
2007C Refunding Bonds	213,720,000		213,720,000	
Less Bonds Refunded by 2007C	-221,970,000		-221,970,000	
2009E Refunding Bonds	149,730,000		149,730,000	
Less Bonds Refunded by 2009E	-153,335,000		-153,335,000	
2009I Refunding Bonds	640,825,000		640,825,000	
Less Bonds Refunded by 2009I	-657,815,000		-657,815,000	
Grand Total	$20,749,415,000	$859,640,000	$20,824,405,000	$784,650,000

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

Outstanding Debt

The following table sets forth the projected outstanding principal amount of indebtedness of the State. As of the date of this Official Statement, there is $784,650,000 of authorized but unissued general obligation debt. There is no authorized but unissued guaranteed revenue debt.

	General Obligation Bonds	Guaranteed Revenue Bonds	Total Bonds Outstanding
Total bonds outstanding as of June 30, 2010	$ 8,630,635,000	$ 520,295,000	$ 9,150,930,000
Plus bonds issued July 1, 2010 through February 28, 2011	653,925,000	0	653,925,000
Less Scheduled Retirements July 1, 2010 Through February 28, 2011	-491,740,000	-26,625,000	-518,365,000
Less "Market Transactions to Retire Debt" Through February 28, 2011	0	0	0
Less bonds refunded or cash defeased July 1, 2010 through February 28, 2011	-34,845,000	-16,905,000	-51,750,000
Total Bonds Outstanding as of February 28, 2011	$ 8,757,975,000	$ 476,765,000	$ 9,234,740,000

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, 2010, included as Appendix B.

Outstanding Debt Service

The following table sets forth the aggregate debt service by fiscal year of the State of Georgia on all issued and outstanding general obligation and guaranteed revenue debt as of February 28, 2011.

Debt Service Schedule

Fiscal Year Ending June 30,	General Obligation Principal	Guaranteed Revenue Principal	Total Principal	Total Interest	Total Debt Service
2011	$206,830,000	$16,910,000	$223,740,000	$124,249,084	$347,989,084
2012	739,460,000	30,770,000	770,230,000	426,537,888	1,196,767,888
2013	698,905,000	32,390,000	731,295,000	387,379,477	1,118,674,477
2014	643,110,000	34,125,000	677,235,000	350,997,252	1,028,232,252
2015	633,080,000	35,945,000	669,025,000	317,035,385	986,060,385
2016	566,550,000	37,840,000	604,390,000	283,868,840	888,258,840
2017	534,995,000	39,830,000	574,825,000	254,954,456	829,779,456
2018	537,545,000	41,925,000	579,470,000	225,536,044	805,006,044
2019	520,880,000	44,045,000	564,925,000	197,671,506	762,596,506
2020	499,205,000	46,305,000	545,510,000	170,948,093	716,458,093
2021	482,470,000	48,675,000	531,145,000	144,900,360	676,045,360
2022	431,205,000	21,545,000	452,750,000	121,381,595	574,131,595
2023	410,175,000	22,650,000	432,825,000	101,221,611	534,046,611
2024	377,810,000	23,810,000	401,620,000	81,486,952	483,106,952
2025	334,730,000	0	334,730,000	63,351,619	398,081,619
2026	309,010,000	0	309,010,000	46,907,823	355,917,823
2027	312,790,000	0	312,790,000	32,731,532	345,521,532
2028	219,605,000	0	219,605,000	20,586,605	240,191,605
2029	179,790,000	0	179,790,000	11,510,817	191,300,817
2030	85,490,000	0	85,490,000	3,672,639	89,162,639
2031	34,340,000	0	34,340,000	789,376	35,129,376
Total	$8,757,975,000	$476,765,000	$9,234,740,000	$3,367,718,953	$12,602,458,953

Note: Principal payments are made in various months throughout the year (see "Outstanding Debt" above); amounts shown are the remaining scheduled payments by fiscal year for all outstanding debt, as of February 28, 2011. Amounts may not add precisely due to rounding.

Source: Georgia State Financing and Investment Commission (Note: amounts may not add precisely due to rounding.)

Rate of Debt Retirement

The following table sets forth the rate of scheduled debt retirement of the State of Georgia on all outstanding general obligation and guaranteed revenue bonds as of February 28, 2011. There have been no additional general obligation or guaranteed revenue bonds issued since that date.

Principal Amount Due	Amount	% of Total
In 5 Years	$3,584,780,000	38.8%
In 10 Years	$6,408,105,000	69.4

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. The schedule below summarizes these transactions for the years indicated. **There have been no secondary market transactions during FY2011 through February 28, 2011.**

Market Transactions to Retire Debt, Fiscal Years 2006 – 2010

Fiscal Year Ended June 30	Par Value	Purchase Price (1)	Purchase Price as a percent of Par Value
2006	$ 30,900,000	$18,563,226	60.08%
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

(1) Excluding Accrued Interest
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 2010, see "Fiscal Performance," below.

Fiscal Year Ended June 30	Treasury Receipts	% Change From Prior Year
2006	$18,343,186,033	9.3%
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)%

Source: State Accounting Office

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 Fiscal Year Ended June 30, 2010	$1,625,124,018
• Highest current outstanding debt service in any year (highest FY 2011, net of the effect of all market transactions to retire debt through February 28, 2011	$1,196,767,890
• Total additional debt service appropriations for all authorized but unissued bonds	$75,071,546
• Highest total annual commitments in any Fiscal Year, including debt service appropriations for all authorized but unissued bonds	$1,271,839,436
• As a percent of Fiscal Year 2010 State Treasury Receipts	7.83%
• 10% of Projected State Treasury Receipts for Fiscal Year Ended June 30, 2011	$1,752,681,880
• As a percent of Fiscal Year 2011 Projected State Treasury Receipts	7.26%

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 (1)	Estimated Actual Value	Assessed as a % of EAV
2005	$307,681,515,771	$ 799,172,768,236	38.5%
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	385,427,350,564	1,003,717,058,762	38.4

(1) For 2009, several counties (including Fulton County, the largest in the State) are based on estimated data that is subject to change.

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

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

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

DEBT RATIOS

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

Total State Debt Outstanding as of February 28, 2011 (See "Outstanding Debt" herein)	$9,234,740,000
2010 Population Estimate (1)	9,687,653
2010 Total Personal Income Estimate (2)	$343,618,000,000
Debt per Capita	$953
Debt to Personal Income	2.7%
Debt to Estimated Actual Value	0.9%
Debt to Assessed Valuation	2.4%

(1) U.S. Department of Commerce, Bureau of the Census, Census 2010

(2) U.S. Department of Commerce, Bureau of Economic Analysis (average of 2010 2nd and 3rd quarter estimates)

Source: Georgia State Financing and Investment Commission

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Selected Financial Information

GEORGIA NET REVENUES, REVENUE SHORTFALL RESERVE, AND UNRESERVED SURPLUS BALANCE
(Millions)

		Revenue Shortfall Reserve (1)			
Fiscal Year Ended June 30	Georgia Net Revenues	Total Reserves (2)	1% Education (K-12) (2)	Net	Unreserved Surplus Balance
2006	$17,339	$ 966	$173	$ 793	0
2007	18,840	1,733	188	1,545	0
2008 (3)	18,728	1,212	187	1,025	0
2009 (4)	16,767	530	168	362	0
2010	15,216	268	152	116	0

(1) See page A-4, "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 FY 2009 and FY 2010, the Revenue Shortfall Reserve did not exceed 4% of the preceding fiscal year's net revenue.

(2) Up to 1% of the net revenue collections of the preceding fiscal year may be used for funding increased educational (K-12) needs. The FY 2005, FY 2006, FY 2007, FY 2008, and FY 2009 Education Reserves were appropriated in FY 2006, FY 2007, FY 2008, FY 2009, and FY 2010 respectively, for this purpose (see page A-16).

(3) 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.

(4) At June 30, 2009, the 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, 2009 Revenue Shortfall Reserve was released for 2010 appropriation.

RECONCILIATION OF REVENUE SHORTFALL RESERVE (RSR) AND FY 2010 USES

Total Audited RSR as of June 30, 2009	$529,958,098
Amended FY 2009 Mid-year Appropriation for K-12 Education	(167,666,618)
FY 2010 Appropriation of RSR	(258,597,684)
RSR Balance Available	103,693,796
Preliminary FY 2010 Budget Excess	1,224,090
FY 2010 Early Return of Agency Surplus	87,836,133
Additional Agency Surplus	75,425,850
Audited RSR as of June 30, 2010	268,179,869
1% Mid-year Adjustment for K-12 Recommended for Appropriation in FY2011	(152,157,908)
RSR Balance	$116,021,961

Source: State Accounting Office

Fiscal Performance

FY 2010 Results. The recent deep recession which affected the global economy had a significant impact on Georgia's economy and tax revenue performance in FY 2009 and continued to have a negative impact on Georgia's revenue collections in FY 2010. The Amended FY 2010 General Fund budget was based on revenue estimate assumptions of a decrease of 9.3% over FY 2009 actual revenues. Overall, total General Fund Revenues fell by 9.2% in FY 2010 compared to FY 2009.

The US economy began to recover early in FY 2010 and signs of improvement in Georgia's revenue collections began to appear in the second half of the fiscal year. Tax revenues fell by 14.2% in the first quarter of the fiscal year and 13.1% in the second quarter. All major revenue sources, including individual withholding tax, individual and corporate estimated payments, and sales tax declined significantly on a year over year basis during this period. In addition, a large number of tax refunds were delayed beyond the end of FY 2009 into early FY 2010 due to processing capacity limitations at the Department of Revenue ("DOR"). The increase in refunds paid in the first half of the fiscal year was a significant contributor to the decline in tax revenues experienced during that period.

The declines in year over year revenue growth moderated in the third and fourth quarters of FY 2010. Major revenue sources began to stabilize and exhibited modest growth as the national and state economies stabilized and then began to show signs of growth as the fiscal year progressed. Tax revenues year over year fell by 5.9% in the third quarter and by 2.0% in the fourth quarter of FY 2010.

Overall, FY 2010 individual income tax revenues fell by 10.2% compared to FY 2009. Revenues from income tax withholding fell by 1.4% for the fiscal year. Withholding revenues were down 3.5% in the first six months, but grew 0.7% in the last six months of the fiscal year. This suggests that labor markets and labor market income have stabilized. Estimated payments fell 27.4% compared to FY 2009. Individual income tax payments with final returns fell by 9.4%. Refund payments increased by 17.7%. As noted above, in late FY 2009 income tax return processing capacity at the DOR was reduced due to budget cutbacks. This, in turn, reduced DOR's capacity to process refund payments and resulted in a significant volume of refunds that were carried over into FY 2010 for processing. Approximately $293 million in total refunds owed to tax filers were estimated to be outstanding at year end FY 2009. Although some refunds are typically carried over into the new fiscal year, this level of carryover significantly exceeded the normal level.

FY 2010 sales and use tax revenues fell by 8.3%. The decline in sales tax revenue was heavily weighted to the first half of the fiscal year. Revenues fell by 14.7% in the first quarter, by 17.7% in the second quarter, by 7.1% in the third quarter and 1.8% in the fourth quarter.

FY 2010 corporate income tax revenues fell by 1.4% over FY 2009 revenues. Corporate estimated payments fell by 6.8%. Estimated payments grew in the second half of the fiscal year. U.S. corporate profits have grown rapidly which is expected to boost corporate estimated payments; however, net operating loss carry forwards can create a lag between profit growth and corporate income tax revenue growth. Refunds decreased by 15.0% in FY 2010 over FY 2009.

The Amended FY 2010 budget was built on a projected decline of 9.3% in General Fund revenues compared to actual FY 2009 revenues. Actual FY 2010 revenues were slightly greater than the estimate by approximately $1.2 million. In addition, early return of surplus totaled $87.8 million due to agency appropriation allotment withholds and other factors. The combination of these factors resulted in an increase in the Revenue Shortfall Reserve ("RSR") of $89.0 million prior to the addition of audited surplus. Agency lapsed funds total an additional $72.4 million bringing the total balance in the RSR to $268.2 million. The Governor has recommended appropriation of the mid-year education adjustment for the Amended FY 2011 budget in the amount of $152.2 million. The RSR balance net of this appropriation is approximately $116 million.

In FY 2010, the State utilized approximately $158 million of prior year unrestricted lottery reserves and approximately $161 million of prior year tobacco settlement fund reserves to meet expenditures.

FY 2011Year to Date Through January 31, 2011. Tax revenues have grown 8.1% over the first seven months of FY 2011 compared to FY 2010. Individual income tax revenues are up 8.6%. In the first three months of the fiscal year, much of the improvement in individual income tax revenues was a direct result of increased processing capacity at the DOR at the end of FY 2010 compared to FY 2009. This caused a significant reduction in the number of tax refunds carried over from FY 2010 into FY 2011 and resulted in a large decrease in the number of individual income tax refunds processed and the dollar amount of individual income tax refunds paid during the first three months of FY 2011. While refund payments have continued to track below year ago levels for the subsequent four months, revenue growth from withholding has firmed. Withholding revenue has grown 3.8% in FY 2011 through January 31, 2011 as compared to the similar time period in FY 2010. Sales tax revenue growth equals 5.5% for the same fiscal period. Corporate income tax revenues are up slightly at 0.3% for the same fiscal period.

Current Economic Indicators. The economic recovery in the US has been in place since mid-2009. Real GDP returned to positive growth in the third quarter of 2009 and grew quickly through the end of the calendar year. Real GDP growth then slowed, raising concerns about a possible double dip recession. However, GDP growth has strengthened from its low in the second quarter and growth accelerated through the fourth quarter 2010. While the inventory cycle initially was a key driver of economic growth during the recession, personal consumption expenditures have become an important driver of growth over this period of economic reacceleration.

While the overall economy is growing, labor market conditions remain weak. Nationally, job growth averaged about 84,000 new jobs per month over the fourth quarter of 2010. Considering that non-farm employment fell by approximately 8.4 million from the peak prior to the recession to the trough during the recession, it likely will take a substantial amount of time for employment to grow back to the previous peak at current growth rates. The US unemployment rate remains elevated at 9.0% as of January 2010. However, other labor market indicators suggest that the labor market is firming. Initial unemployment insurance claims are trending down while average weekly hours worked and average hourly earnings of employees on private payrolls are running above year ago levels.

Economic indicators for Georgia show that the recession had a severe impact on Georgia's economy as well. Georgia's employment level peaked in February 2008. Since that peak, net employment fell by approximately 348,000 jobs, or 8.4% to the trough. Over the 12 months of 2010, non-farm employment fell by 8,100 jobs;

however, the preliminary data for December 2010 indicated a drop of 17,500 jobs for the state. Prior to December's data report, Georgia non-farm employment had been growing on average at a modest rate over the year.

Georgia's unemployment rate hit a peak of 10.5% in March of 2010. Since that peak it has fallen as low as 9.8% but has increased to 10.2% as of December 2010. As with the U.S., initial unemployment insurance claims have been trending below year ago levels, but are higher than would be expected in a quickly growing labor market.

Personal income is another key indicator of economic conditions in Georgia and the U.S. Total personal income for Georgia decreased in three consecutive quarters, starting with the third quarter of calendar 2008 and continuing through the first quarter of calendar 2009. Personal income then grew in the second quarter of calendar 2009, fell again in the third quarter of calendar 2009, but has grown in the four most recent quarters for which data is available (fourth quarter of calendar 2009 through third quarter of calendar 2010). Importantly, wage and salary income has begun to grow again in Georgia, posting positive growth in the last three quarters. U.S. personal income growth generally has followed the same quarterly pattern as Georgia growth with negative growth in the second half of 2008 and parts of 2009, but positive growth in the last four quarters. Income growth from wages and salaries has strengthened in recent quarters, which is a positive indicator for future growth.

The housing sector in Georgia shows some signs of stability, but with no evidence of increased new construction activity. The number of home building permits issued fell 90% from peak to trough. On a three month moving average basis, permits issued bottomed in January 2009 at just over 1,000 units. As of November 2010, new permits issued are still running near this level. Home prices as measured by the S&P Case Shiller repeat purchase index had shown some signs of improvement through the summer of 2010. However, in recent months home price trends have turned negative again. As of December 2010, Atlanta metro area home prices are down 8.0% from December 2009. The composite index for 20 Metro area home prices is down 2.4%. Foreclosure rates and mortgage delinquency rates remain high, and foreclosures continuing at current rates likely would prevent any price recovery or rebound in construction.

Despite areas of weakness, a wide range of economic indicators show that the economic recovery is gaining momentum. Consumer spending and retail sales are running above year ago levels and trending up. A variety of indicators for manufacturing show this sector is still expanding. New orders, shipments and the backlog of unfilled orders all are rising. The Institute of Supply Management index shows that the pace of expansion in manufacturing has increased in recent months. The survey of Professional Forecasters, conducted by the Federal Reserve Bank of Philadelphia and released in February 2011, shows that the consensus forecast is for positive GDP growth for the U.S. to continue through 2012. The forecasters have raised their expectations of GDP growth in 2011 and 2012 compared to the November 2010 forecasts.

FY 2011 Budget. The adopted FY 2011 budget represents a 4.7% increase in tax revenue over actual FY 2010 tax revenue collections and an 8.7% increase over FY 2010 General Fund collections. The revenue estimate included approximately $756 million in new revenue sources. Of that total, $288 million is one time revenue associated with the sale of a portion of the water and sewer loans made to local governments by the Georgia Environmental Finance Authority ("GEFA") and the subsequent transfer by GEFA of the sale proceeds to the State.

The Amended FY 2011 budget was submitted to the General Assembly on January 12, 2011. The revenue estimate for the Amended Budget lowered General Fund Revenues by $27.7 million, reducing anticipated General Fund growth to 8.5% over FY 2010 General Fund collections.

The Amended FY 2011 revenue estimate factors in tax revenue growth of 4.2%, inclusive of tax law changes, over FY 2010 revenue collections. Net of tax law changes and reporting adjustments, growth of 3.6% is anticipated. Net of new revenues, the amended budget assumes that General Fund revenues will grow 3.5%. In addition, the State expects to exhaust stimulus funds from the American Recovery and Reinvestment Act (ARRA) in FY 2011.

ARRA Funds: Actual FY 2009-FY 2010 and Projected FY 2011	**FY 2009**	**FY 2010**	**FY 2011**	**Total ARRA Funds**
Education Stabilization Funding	$177,235,644	$957,393,661	$126,169,790	$1,260,799,095
General Stabilization Funding	12,356,685	140,260,406	127,903,001	280,520,092
Total Stabilization	189,592,329	1,097,654,067	254,072,791	1,541,319,187
Enhanced FMAP Funds	497,037,627	725,554,893	614,010,475	1,836,602,995
Total ARRA Funds Appropriated	$686,629,956	$1,823,208,960	$868,083,266	$3,377,922,182

The State currently anticipates utilizing approximately $288 million in unrestricted lottery reserves in FY 2011 to meet projected program expenditures. Based on current expenditure and collection patterns, the State estimates a balance of unrestricted lottery reserves at June 30, 2011 of approximately $173 million. The unrestricted reserves are in addition to restricted reserves which had a FY 2010 year-end balance of $360 million.

The economic scenario used in the development of the revenue estimate for the Amended FY 2011 budget assumed that Georgia's economy has bottomed out and begun to recover. Georgia's net job growth was positive for the first five months of the fiscal year, but took a step back in December. Net job growth is expected to gradually accelerate in the second half of FY 2011. Similarly, personal income growth has been positive for the first half of the fiscal year, and growth is expected to continue and pick up modestly in the second half of the fiscal year.

While recent economic data is largely consistent with the expected acceleration in growth in the second half of the fiscal year, there are still risks to the economy that could lead to growth falling below the expected level. If the recovery does not pick up, or the economy slides back into recession, or revenue collections are weaker than anticipated, it may be necessary for the Governor to reduce the revenue estimate for FY 2011. The State continues to monitor revenue trends closely to determine if spending reductions will be required for budget balancing purposes.

FY 2012. The Governor's proposed FY 2012 budget projects General Fund revenues to grow in FY 2012 by about 3.9% over the Amended FY 2011 revenue estimate, with tax revenue growth of about 6.1%. The projected growth in revenues assumes that the acceleration in economic growth anticipated in early FY 2011 continues through the end of the current fiscal year and that the economy continues to expand throughout FY 2012. Also, increases to the lottery estimate for FY 2012 are likely, based upon proposed legislative changes under consideration by the 2011 General Assembly.

The economic forecast projects solid employment and personal income growth for Georgia in FY 2012. The recovery is expected to accelerate in the lead up to FY 2012 and continue through the fiscal year. The additional fiscal stimulus enacted at the end of 2011 by the U.S. Congress is expected to solidify and accelerate the economic recovery. Higher employment and personal income growth will boost individual income tax and sales tax revenues. Additionally, the transition of households to a higher savings rate is expected to be largely complete which will boost consumer spending growth. Corporate income tax revenues also are expected to grow as corporate profits are expected to grow and the impact of net operating loss carry forwards on corporate tax revenues wane.

The Governor's proposed FY 2012 budget reflects estimated revenue increases and the loss of stimulus and other one-time funds in the amount of approximately $1.1 billion. The Governor's budget recommendations balance the FY 2012 budget by reducing expenditures to match expected revenues from recurring fund sources.

The State's economic forecast assumes that by the start of FY 2012 the recovery will be strong enough to generate solid employment and personal income growth, and also to bring down the unemployment rate. However, should the current recovery slow further or falter entirely, it would not be feasible for revenue growth to reach the anticipated level. The State will monitor revenue trends closely to determine if adjustments will be required for budget balancing purposes.

Cash Flow Management and Budgetary Controls*.* The State Constitution requires the State to adopt a balanced budget. Under the State Constitution no money may be drawn from the State Treasury except for appropriations made by law. In addition, all monies for the support of State government and all other State purposes, as far as can be ascertained or reasonably foreseen, must be provided for in one general appropriations law covering the same fiscal year.

Before money can be disbursed pursuant to an appropriation, it must first be allotted (administratively allocated and approved for expenditure). During the fiscal year, allotments are provided to 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") 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. At times, OPB has rescinded undrawn allotments prior to such allotments being funded by Treasury.

The Treasury monitors cash balances available to fund appropriation allotments on a daily basis. In coordination with the State Economist and OPB, the Treasury reviews monthly revenue collections and expected fund allotments to project adequacy of cash flow. The State's cash balances decreased to lower levels in FY 2009 and FY 2010 as a result of declining State tax revenues and lower reserve levels experienced during the Great Recession. In FY 2011 the State's cash balances have gradually increased as the State has experienced renewed growth in tax and fee revenues. During the months of declining revenues in the fourth quarter of FY 2010, the State took steps to ensure liquidity by withholding appropriation allotments and by increasing the processing time for tax refunds. These tools continue to be available to the State in the event of a future need to ensure adequate liquidity. The State also may consider other available mechanisms to ensure liquidity such as internal cash-flow borrowing or a bank line of credit. An external line of credit is limited under current State law to 1 percent of prior year receipts and must be repaid within the same fiscal year. The sale of GEFA's water and sewer loans and the subsequent transfer by GEFA of the sale proceeds to the State is expected to provide a cash infusion of approximately $288 million in the third quarter of FY 2011.

Fiscal Policy Initiatives

Under Georgia law, the Governor is the State's Chief Executive and is also the *ex officio* Director of the Budget. He is assisted in financial management by a Finance Council, whose membership is comprised of the Director of the Office of Planning and Budget (also serving as the Chief Financial Officer and convener of the Finance Council), the State Auditor, the Commissioner of Revenue, the State Economist, the Director of the Financing and Investment Division of the Georgia State Financing and Investment Commission, the State Accounting Officer, and the State Treasurer.

Financial Leadership. Georgia's 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 forecasts of key U.S. and Georgia economic data, in addition to information provided by an external Council of Economic Advisors compromised of economic experts from academia and business, 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.

Commission for a New Georgia - Management Best Practices. Since 2003, Georgia has been systematically upgrading government performance to benchmark standards of the nation's best-managed states. The Commission for a New Georgia ("CNG"), an advisory council of senior business executives established under the prior Governor, was the catalyst for instituting modernization, implementing best practices, and utilizing professional standards in a broad array of operations across State government.

Twenty-four CNG task forces, engaging more than 400 experienced citizens and national consultants, analyzed key functional areas of State government. The findings of these task forces led to 130 recommendations to improve process efficiency, cost-effectiveness, asset management, customer service, and strategic growth opportunities. More than 85% of actionable recommendations were implemented.

Following are some examples of reforms which were implemented and the results those reforms produced:

- Creation of State Accounting Officer and State Property Officer positions. These officials have instituted enterprise-wide processes and professional management practices.
- Comprehensive inventories of cars, planes, buildings, lands, and leases were compiled in databases to manage all aspects of the total cost of asset ownership and consolidation for cost-saving.
- The State's first building construction manual set end-to-end contracting and construction processes.
- The State recovered significant amounts of seriously delinquent taxes and uncollected revenues from federal allocations.
- Creation of a Leadership Institute which developed the management skills of employees and administrators with advancement potential, a vital component of succession planning.
- Creation of a Customer Service Office which has driven rapid process improvement in agencies with high-volume public services. Improvements are measured in faster turnaround, easier access, and higher customer satisfaction. In 2008, a 1-800 call center was launched. Customer service representatives now use a comprehensive database of State services to transfer callers to the correct office to address their concerns on the initial call, thus eliminating the agency roulette process previously experienced by many callers.
- The State procurement division, which during the CNG study period contracted for over $5.7 billion in purchases a year, completed a total transformation to strategic sourcing; the first wave of new contracts on major spending categories using this methodology came in $101 million below previous pricing.
- Risk management services were elevated to a professional division which now uses actuarial data and loss control programs to reduce insurance costs and payouts.
- The State Personnel Administration restructured compensation packages, including transitioning from a defined-benefit retirement plan to a hybrid retirement plan, consisting of both defined benefit and defined contribution components. This was part of an initiative to recruit and retain a qualified workforce and modernize human resources policies and procedures for the changing market.
- In 2008, State government's information technology infrastructure consolidated IT functions with the Georgia Technology Authority managing private sector contracts to keep the State's infrastructure up-to-date and with appropriate levels of security and disaster recovery.

GEORGIA REVENUES

ACTUAL FY2006 - FY2010

The following table sets forth actual budget-based annual State Treasury receipts available for appropriation.

GENERAL FUNDS	FY2006	FY2007	FY2008	FY2009	FY2010
Taxes: Department of Revenue					
Income Tax - Individual	$8,021,933,827	$8,820,794,305	$8,829,480,885	$7,814,552,113	$7,016,412,171
Income Tax - Corporate	862,730,327	1,019,117,939	941,966,726	694,718,310	684,700,740
Sales and Use Tax - General	5,711,915,442	5,915,521,040	5,796,653,340	5,306,490,689	4,864,691,463
Motor Fuel	821,159,527	939,034,563	994,790,336	884,091,188	854,359,788
Tobacco Taxes	241,503,374	243,276,111	239,691,526	230,271,910	227,180,405
Alcoholic Beverages Tax	157,818,125	181,560,133	167,397,928	169,668,539	169,019,330
Estate Tax	12,786,407	1,426,030	12,325	82,990	0
Property Tax	72,138,489	77,842,189	80,257,696	83,106,994	86,228,331
Taxes: Other Organizations					
Insurance Premium Tax	342,982,442	341,745,785	348,218,618	314,338,992	274,367,273
Motor Vehicle License Tax	255,994,021	289,931,262	296,648,374	283,405,915	282,515,540
Total Taxes	16,500,961,980	17,830,249,357	17,695,117,754	15,780,727,640	14,459,475,041
Interest, Fees and Sales - Department of Revenue	199,461,999	151,323,824	150,848,634	158,916,288	132,282,145
Office of State Treasurer:					
Interest on Deposits	105,528,062	157,932,214	146,815,058	89,157,960	8,157,741
Other Fees and Sales	6,150,162	613,734	428,752	602,761	338,417
Behavioral Health	0	0	0	0	5,856,093
Driver Services	61,896,306	63,494,126	64,907,591	64,176,624	40,600,978
Natural Resources	46,958,436	48,830,921	51,865,765	47,001,999	49,221,174
Secretary of State	60,063,070	65,830,011	66,970,993	66,794,531	68,244,049
Labor Department	32,291,937	32,616,320	32,318,507	30,332,589	28,354,875
Human Resources	9,021,409	28,534,965	16,587,606	33,609,407	8,955,806
Banking and Finance	22,814,714	22,125,811	21,485,712	20,728,179	21,428,925
Corrections	13,773,686	14,526,604	16,445,194	15,689,864	13,435,899
Workers' Compensation	16,196,305	16,431,404	17,347,383	18,904,664	18,930,132
Public Service Commission	1,140,575	2,066,311	1,051,726	3,031,268	1,499,311
Nursing Home Provider Fees	95,606,731	111,767,509	133,973,809	122,623,032	126,449,238
Care Mgmt. Organization Fees	5,071,682	127,600,688	140,307,653	143,957,013	42,232,458
Hospital Provider Fee	0	0	0	0	0
Driver Services Super Speeder Fine	0	0	0	0	2,046,905
Indigent Defense Fees	37,422,286	43,304,260	45,373,866	43,987,641	44,598,499
Peace Officers' and Prosecutors' Training Funds	23,723,762	27,360,053	27,289,574	25,604,603	26,555,179
All Other Departments	100,676,485	95,833,527	98,677,046	100,815,741	117,127,921
Total Interest, Fees & Sales	837,797,608	1,010,192,282	1,032,694,869	985,934,164	756,315,745
Total General Funds (Georgia Net Revenues)	17,338,759,588	18,840,441,639	18,727,812,623	16,766,661,804	15,215,790,786
Lottery Funds	847,970,098	892,023,459	901,286,984	884,642,058	886,375,726
Tobacco Settlement Funds	149,348,812	156,766,907	164,459,961	177,370,078	146,673,654
Guaranteed Revenue Debt Common Reserve Fund Interest Earnings	2,546,934	3,736,864	3,603,320	1,719,873	333,632
Brain and Spinal Injury Trust Fund	4,560,600	3,007,691	1,968,993	1,968,993	2,066,389
Total State Treasury Receipts	**18,343,186,033**	**19,895,976,560**	**19,799,131,881**	**17,832,362,806**	**16,251,240,187**
Other	2,240	2,412	2,437	2,808	4,236
Subtotal (Georgia Revenues)	18,343,188,273	19,895,978,972	19,799,134,318	17,832,365,614	16,251,244,423
Payments from State Organizations	24,033,743	0	0	25,911,999	98,959,391
Mid-Year Adjustment--Education Reserve	158,139,967	173,387,596	188,404,416	187,278,126	167,666,618
Appropriation of Revenue Shortfall Reserve (1)	0	0	536,218,804	548,658,969	258,597,684
TOTAL FUNDS AVAILABLE FOR APPROPRIATION	**$18,525,361,983**	**$20,069,366,568**	**$20,523,757,538**	**$18,594,214,708**	**$16,776,468,116**

(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

PROJECTED FY2011 and FY2012

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

GENERAL FUNDS	**Adopted FY2011 (1)**	**Governor's Recommended Amended FY2011 (2)**	**Governor's Recommended FY2012 (2)**
Taxes: Department of Revenue			
Income Tax - Individual	$7,281,574,691	$7,432,660,900	$7,943,994,082
Income Tax - Corporate	602,043,870	610,853,200	672,950,200
Sales and Use Tax - General	5,254,391,183	5,048,784,031	5,332,628,127
Motor Fuel	856,189,000	848,073,095	897,856,882
Tobacco Taxes	226,831,000	219,325,000	216,035,000
Alcoholic Beverages Tax	177,388,000	165,787,000	167,777,000
Estate Tax	0	0	0
Property Tax	81,453,100	80,599,400	63,799,400
Taxes: Other Organizations			
Insurance Premium Tax	378,601,725	347,813,800	363,154,400
Motor Vehicle License Tax	283,150,850	310,031,226	322,432,474
Total Taxes	15,141,623,419	15,063,927,652	15,980,627,565
Interest, Fees and Sales - Department of Revenue	150,000,000	274,710,548	281,710,548
Office of State Treasurer:			
Interest on Deposits	11,200,000	5,114,422	1,000,000
Other Fees and Sales			
Behavioral Health	5,595,168	5,562,555	5,547,064
Driver Services	64,000,000	64,000,000	64,000,000
Natural Resources	47,000,000	47,000,000	47,000,000
Secretary of State	65,359,000	77,089,000	77,089,000
Labor Department	29,000,000	29,000,000	28,500,000
Human Resources	5,028,000	7,612,435	6,851,191
Banking and Finance	19,937,643	19,230,505	18,178,505
Corrections	16,470,963	16,470,963	14,105,526
Workers' Compensation	21,091,993	19,439,379	20,625,515
Public Service Commission	2,200,000	2,200,000	1,500,000
Nursing Home Provider Fees	131,321,939	131,321,939	131,321,939
Care Mgmt. Organization Fees	0	0	0
Hospital Provider Fee	229,007,409	215,766,054	224,138,048
Driver Services Super Speeder Fine	23,000,000	10,543,460	16,656,896
Indigent Defense Fees	43,987,641	44,598,499	44,598,499
Peace Officers' and Prosecutors' Training Funds	25,800,000	27,360,606	27,360,606
All Other Departments	215,392,631	158,407,200	164,326,577
Total Interest, Fees & Sales	1,105,392,387	1,155,427,565	1,174,509,914
Total General Funds (Georgia Net Revenues)	16,247,015,806	16,219,355,217	17,155,137,479
Lottery Funds	1,127,652,261	1,158,703,915	832,402,256
Tobacco Settlement Funds	140,062,434	146,798,829	138,472,267
Guaranteed Revenue Debt Common Reserve Fund Interest Earnings	0	0	0
Brain and Spinal Injury Trust Fund	1,960,848	1,960,848	1,933,708
Total State Treasury Receipts	**17,516,691,349**	**17,526,818,809**	**18,127,945,710**
Other	0	0	0
Subtotal (Georgia Revenues)	17,516,691,349	17,526,818,809	18,127,945,710
Payments from State Organizations	84,768,912	85,832,297	34,568,160
GEFA Loan Sale	287,900,000	287,900,000	0
Mid-Year Adjustment--Education Reserve	0	152,157,908	0
Appropriation of Revenue Shortfall Reserve	0	0	0
TOTAL FUNDS AVAILABLE FOR APPROPRIATION	**$17,889,360,261**	**$18,052,709,014**	**$18,162,513,870**

(1) Office of Planning and Budget – Budget Appropriations for FY 2011, as adopted by General Assembly and signed into law.

(2) Office of Planning and Budget – Governor's recommended Amended FY2011 budget; Governor's recommended FY2012 budget.

GEORGIA REVENUES

FIVE-YEAR HISTORY

The following table sets forth by category the budget-based State revenues available for appropriation for the State's past five fiscal years.

	Fiscal Year Ended June 30				
	2006	2007	2008	2009	2010
Alcoholic Beverages Tax	$157,818,125	$181,560,133	$167,397,928	$169,668,539	$169,019,330
Estate Tax	12,786,407	1,426,030	12,325	82,990	0
Income Tax – Corporate	862,730,327	1,019,117,939	941,966,726	694,718,310	684,700,740
Income Tax – Individual	8,021,933,827	8,820,794,306	8,829,480,885	7,814,552,113	7,016,412,171
Insurance Premium Tax and Fees	342,982,442	341,745,785	348,218,618	314,338,992	274,367,273
Excise and Motor Carrier Mileage Tax	450,942,840	469,929,463	456,634,594	461,265,508	469,117,616
Prepaid Motor Fuel Sales Tax	370,216,687	469,105,100	538,155,742	422,825,680	385,242,172
Motor Vehicle License Tax	255,994,021	289,931,262	296,648,374	283,405,915	282,515,540
Property Tax – General and Intangible	72,138,489	77,842,189	80,257,696	83,106,994	86,228,331
Sales and Use Tax - General	5,711,915,442	5,915,521,040	5,796,653,340	5,306,490,689	4,864,691,463
Tobacco Products Tax	241,503,374	243,276,111	239,691,526	230,271,910	227,180,405
Total Taxes	16,500,961,980	17,830,249,357	17,695,117,754	15,780,727,640	14,459,475,041
Total Regulatory Fees and Sales	837,797,609	1,010,192,281	1,032,694,869	985,934,164	756,315,745
Total Other Revenues Retained (1)	1,004,428,684	1,055,537,333	1,071,321,695	1,065,703,810	1,035,449,401
Total Revenues	$18,343,188,273	$19,895,978,972	$19,799,134,318	$17,832,365,614	$16,251,240,187

(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 from page A-16.

Note: Amounts may not add precisely due to rounding.

Source: Fiscal Years 2006 – 2008, *Budgetary Compliance Report*, State Accounting Office; Fiscal Years 2009 - 2010, State Accounting Office

Changes in Georgia Revenues – Fiscal Year 2009 to Fiscal Year 2010

	Fiscal Year 2009	Fiscal Year 2010	$ Change	% Chg
Alcoholic Beverages Tax	$169,668,539	$169,019,330	$ (649,209)	(0.4)%
Estate Tax	82,990	0	(82,990)	(100.0)
Income Tax – Corporate	694,718,310	684,700,740	(10,017,570)	(1.4)
Income Tax – Individual	7,814,552,113	7,016,412,171	(798,139,942)	(10.2)
Insurance Premium Tax and Fees	314,338,992	274,367,273	(39,971,719)	(12.7)
Excise and Motor Carrier Mileage Tax	461,265,508	469,117,616	7,852,108	1.7
Prepaid Motor Fuel Sales Tax	422,825,680	385,242,172	(37,583,508)	(8.9)
Motor Vehicle License Tax	283,405,915	282,515,540	(890,375)	(0.3)
Property Tax – General and Intangible	83,106,994	86,228,331	3,121,337	3.8
Sales and Use Tax - General	5,306,490,689	4,864,691,463	(441,799,226)	(8.3)
Tobacco Products Tax	230,271,910	227,180,405	(3,091,505)	(1.3)
Total Taxes	15,780,727,640	14,459,475,041	(1,321,252,599)	(8.4)
Total Regulatory Fees and Sales	985,934,164	756,315,745	(229,618,419)	(23.3)
Total Other Revenues Retained	1,065,703,810	1,035,449,401	(30,254,409)	(2.8)
Total Revenues	$17,832,365,614	$16,251,240,187	$(1,581,125,427)	(8.9)%

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

SUMMARY OF APPROPRIATION ALLOTMENTS

The following table summarizes the appropriation allotment amounts to various areas of State government for the five fiscal years ended June 30, 2006 to June 30, 2010.

	2006	2007	2008	2009	2010
Education:					
K-12	$ 6,904,933,598	$7,708,317,172	$8,303,344,470	$7,691,954,071	$6,932,756,945
Technical and Adult Education	329,481,858	336,851,164	373,317,567	314,571,239	268,549,703
University System	1,819,003,890	1,933,295,452	2,142,061,132	2,022,681,864	1,697,501,563
Total	9,053,419,346	9,978,463,788	10,818,723,169	10,029,207,174	8,898,808,211
Public Health and Welfare:					
General Services, Benefits and Operations, Medical Facilities, Construction and State Institutions	3,705,905,587	4,055,137,058	4,021,270,923	3,282,068,892	3,331,751,012
Transportation	673,196,606	726,113,067	832,725,819	864,076,690	692,700,893
Judicial, Penal and Corrections (1)	1,480,673,345	1,529,773,708	1,647,768,571	1,515,701,609	1,416,224,093
Conservation of Resources	195,238,008	189,370,408	224,390,926	180,749,634	159,829,852
General Obligation Debt Sinking Fund	1,001,485,254	867,362,477	969,780,103	935,990,354	1,040,947,805
All Other (1)	1,693,836,064	1,820,392,546	1,984,908,921	1,764,019,880	1,466,611,359
Total Allotments	$17,803,754,210	$19,166,613,052	$20,499,568,432	$18,571,814,233	$17,006,873,225

Source: State Accounting Office

(1) Public Defender Standards Council moved from "Judicial, Penal and Corrections" to "All Other" effective FY 2008.

GEORGIA DEPARTMENT OF REVENUE - UNAUDITED STATE REVENUES

The following table sets forth unaudited net revenue collections of the State (dollars in thousands) in certain categories for the first seven months (July 1 through January 31) of the fiscal year ended June 30, 2010 (FY 2010) and the fiscal year ending June 30, 2011 (FY 2011).

GENERAL FUND	FY 2010	FY 2011	Change	% Chg
Tax Revenues:				
Income Tax - Individual	$4,578,474	$4,973,395	$394,921	8.6%
Sales and Use Tax - General:				
Sales and Use Tax - Gross	5,384,540	5,645,280	260,740	4.8
Local Sales Tax Distribution	(2,521,259)	(2,580,592)	(59,333)	-2.4
Sales Tax Refunds/Adjustments	(39,539)	(85,439)	(45,900)	-116.1
Net Sales and Use Tax - General	2,823,742	2,979,249	155,506	5.5
Motor Fuel Taxes:				
Prepaid Motor Fuel Sales Tax	204,441	279,111	74,670	36.5
Motor Fuel Excise Tax	257,979	262,036	4,057	1.6
Total Motor Fuel Taxes	462,420	541,147	78,727	17.0
Income Tax - Corporate	295,201	296,194	993	0.3
Tobacco Taxes	126,576	122,060	(4,516)	-3.6
Alcohol Beverages Tax	101,763	101,801	38	0.0
Estate Tax	0	0	0	0
Property Tax	73,118	64,512	(8,606)	-11.8
Motor Vehicle - Tag, Title & Fees (1)	156,481	163,622	7,141	4.6
Total Tax Revenues	8,617,775	9,241,980	624,204	7.2
Other Revenues:				
Other Fees and Sales (2)	72,358	153,031	80,674	111.5
Total Taxes/Other Revenues	$8,690,133	$9,395,011	$704,878	8.1%

(1) The Motor Vehicle Division began collecting Auto Sales Tax funds in January 2006. An adjustment was made to reclassify Sales Tax collections from Motor Vehicle to Other Fees and Sales, to reflect the transaction in January FY 2011. Revenue is then reclassified to Sales Tax in the following month.

(2) Other Fees and Sales include taxes and fees that have been deposited in the bank, but the returns have not been processed. The undistributed amounts, as processed, are reclassified to the proper accounts. It also includes unclaimed property collections.

(Note: Amounts may not add precisely due to rounding.)

Source: State of Georgia Department of Revenue

MONTHLY CASH INVESTMENTS REPRESENTING TREASURY RECEIPTS

The following table sets forth the month ending cash investments representing Treasury Receipts (dollars in millions) comprising state general fund balances for Fiscal Years 2006 through 2010 and the first seven months of FY 2011.

Month	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011
July	$2,481	$3,027	$3,486	$2,453	$1,779	$1,661
August	2,690	2,601	3,612	2,387	1,753	2,037
September	2,558	2,942	3,581	2,526	2,006	2,188
October	2,356	2,398	3,049	1,883	1,613	1,676
November	2,135	2,189	2,889	1,591	1,809	1,686
December	2,252	2,533	2,620	1,757	1,902	1,876
January	2,977	3,302	3,006	2,064	2,165	2,255
February	2,632	2,838	2,531	1,473	1,482	
March	2,509	2,534	2,114	1,239	1,201	
April	2,515	2,476	2,218	1,480	1,329	
May	2,918	3,263	2,109	1,429	1,367	
June	3,193	3,585	2,337	1,766	1,786	

Note: Balances (i) exclude investments in the Lottery for Education Trust Fund, Brain and Spinal Injury Trust Fund, and Guaranteed Revenue Debt Common Reserve Fund and (ii) include certain State agency funds invested by the Treasury for and on behalf of the State agencies, which State agency funds may not be readily available for use by Treasury.

Source: Office of State Treasurer

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. The Plaintiffs' estimate of damages is 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. A hearing on the motion is scheduled for March 1, 2011.

Bart L. Graham, State Revenue Commissioner v. Georgia Power Company, et al., Ga. Court of Appeals Case No. A11A0332, on appeal from Fulton County Superior Court Civil Case No. 2007-CV-137383, filed on July 24, 2007. This case arose from Georgia Power's claim for the Port Tax Credit (the "Credit") provided by O.C.G.A. § 48-7-40.15. Georgia Power asserts that its increase in imports through Georgia ports during the tax years 2002 through 2004 inclusive qualifies Georgia Power to receive a Credit-based income tax refund. The total Credit claimed is in excess of $50 million, although the amount of refund for each taxable year is capped, with the excess Credit carrying forward to subsequent tax years. The Department of Revenue ("DOR") asserted that Georgia Power Company does not satisfy the statutory requirements to qualify for the Credit. The Superior Court granted summary judgment to Georgia Power on April 2, 2010. DOR filed an appeal with the Georgia Court of Appeals on April 30, 2010. The appeal was docketed with the Court of Appeals on October 18, 2010. The parties filed briefs in November and December 2010. Oral argument occurred on February 23, 2011.

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 issues 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, 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 claiming collateral estoppel, as this case involves the same legal issue decided in favor of DOR in the 2005 Citibank case. Oral argument was conducted on February 9, 2011, and on February 11, 2011, the Court granted DOR's motion to dismiss. Citibank has 30 days to file an application for discretionary appeal with the Georgia Court of Appeals.

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. A scheduling conference is set for March 2, 2011.

Vulcan Construction Materials v. Bart L. Graham, Fulton County Superior Court Civil Case No. 2010-CV-185331, filed on May 6, 2010. In this case involving claims for sales tax refunds, Vulcan asserts two claims of refunds from DOR totaling $5.1 million. Vulcan claims that its purchases of certain machinery, parts, and explosives were exempt from sales tax under O.C.G.A. § 48-8-3(34) (manufacturing machinery exemption) and O.C.G.A. § 48-8-3(35) (industrial materials exemption). These issues were litigated in 2001 (for different tax years) in DeKalb County Superior Court, with a favorable result for DOR. DOR's position is that the claims are barred by collateral estoppel. Discovery is scheduled to end February 28, 2011 and DOR anticipates filing a motion for summary judgment by the March 30, 2011 deadline. In the event the case cannot be disposed on motions, it will be set for a September 2011 bench trial.

Salary-Related Litigation. Certain State employees and teachers have brought separate lawsuits challenging steps the State has taken to manage expenditures relative to reduced revenues.

Stalling, et al. v. Cox, et al., Fulton County Superior Court Civil Case No. 2009-CV-176389, filed on October 14, 2009. Several school teachers contend that: (i) a statutory amendment making the payment of monetary incentives to teachers for achieving national certification "subject to appropriations" of funding for such incentive payments and (ii) any subsequent reductions in the appropriations are unconstitutional. On March 1, 2010, the State filed a motion to dismiss, which was granted by the Court on August 24, 2010. On September 13, 2010, the plaintiffs filed a notice of appeal from the order granting the State's motion to dismiss with the Georgia Court of Appeals. The case is currently waiting for docketing with the Court of Appeals.

Estill, et al. v. Russell W. Hinton, et al., Fulton County Superior Court Civil Case No. 2009-CV-176536, filed on October 19, 2009. This is a putative class action against the heads of various state agencies. The initial action was filed by an unclassified state employee contending that state employees were entitled under state law to a general salary increase of 2½% for the latter half of FY 2009 on the basis of initial appropriations (said appropriations were later reduced by the Amended General Appropriations Act for fiscal year 2008-2009 (Act No. 2, 2009 Regular Session, H.B. 118) enacted by the General Assembly and signed by the Governor on March 13, 2009). The State filed its answer on April 30, 2010. The State's position is that the actions taken by the agency heads were within the scope of their lawful authority, and that the plaintiffs are not entitled to any relief. The complaint was amended on May 28, 2010 to add a classified state employee as a party and to dismiss the Attorney General, the heads of the judicial agencies, and the Governor (in his role as chief executive officer of the State of Georgia) as defendants (the Governor remains a defendant as head of the Office of the Governor), leaving approximately 30 agency executive defendants. The plaintiff filed a motion for class certification on January 13, 2011. Both parties have filed briefs on the issue of class certification and a hearing on this motion is scheduled for March 16, 2011.

Kenny A., et al. v. Sonny Perdue, Department of Human Resources, 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 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. On November 15, 2010, Plaintiffs filed a renewed motion for attorneys' fees and costs with the N.D. Ga. District Court, in order to attempt to demonstrate that the multiplier amount they seek meets the proper standards. The parties anticipate that oral argument on the issue will be heard sometime in 2011. 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. 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.

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; however, the State believes this to be an unlikely outcome. Recently, the participating manufacturers have 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. If the arbitrators rule in their favor, then, pending the conclusion of arbitration, the April 2011 payment might be reduced by as much as two-thirds and future annual payments might also be reduced until the final outcome is determined. If the State prevails, there would be no reduction in future fund payments. The arbitration proceeding is expected to last well into calendar year 2011.

Significant Matters

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

Briefly, under the GASB Statements, the State must report in its financial statements "costs" associated with future participation of retirees in OPEB. Beginning with the fiscal year ended June 30, 2007, the State implemented financial reporting requirements for OPEB plans under GASB Statement 43. Beginning with the fiscal year ended June 30, 2008 (FY 2008), the State implemented accounting and financial reporting requirements for employers under GASB Statement 45.

Financial statements (including the notes thereto and other supplementary information as presented in the "State of Georgia Comprehensive Report for the fiscal year ended June 30, 2010" attached hereto as Appendix B) report accrued OPEB costs and funding progress and other information required by the GASB Statements. In accounting terms, the State Health Benefit Plan (the "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 system,” 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 Personnel OPEB Fund”) and the Georgia State Employees Post-employment Health Benefit Fund (the “State Employee 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 Personnel 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 Personnel 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 2011 or FY 2012.

The Board of Community Health has received from actuaries 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, 2009. For the State Employee OPEB Fund, the June 30, 2009 UAAL is valued actuarially at $4,384,021,409. The ARC for FY 2012 is $317,100,335, or 11.61% of active payroll. The June 30, 2009 valuation considers changes in plan options and premium pricing made by the SHBP for the 2009 and 2010 calendar plan years. These changes reduced the valuation of the UAAL by $480,400,000 as compared to the June 30, 2008 valuation; however, this reduction was offset by a deficiency in the ARC of $159,800,000 and experience losses of $140,400,000. The net reduction to the UAAL was $147,400,000. The SHBP recently announced additional plan design and premium pricing changes to be made in the 2011 calendar plan year (see *State Health Benefit Plan* below), including: plan consolidation (removal of Open Access Plan); 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-payments, and a change in outpatient non-surgical services from co-payments to coinsurance. These plan design changes are projected to reduce total plan expenditures by $110 million in State FY 2011 and $235 million in State FY 2012 and further reduce the UAAL in the June 30, 2010 valuation.

The funded status of the State Employee OPEB Fund at June 30, 2008 and June 30, 2009, the most recent actuarial valuation date, is as follows (dollars in thousands):

Date	Actuarial Value of Assets *(a)*	Actuarial Accrued Liability -Entry Age *(b)*	UAAL *(b-a)*	Funded Ratio *(a/b)*	Annual Covered Payroll *(c)*	UAAL as a % of Annual Covered Payroll *((b-a)/c)*
6/30/2008	$ 141,362	$ 4,672,799	$ 4,531,437	3.0%	$ 2,864,040	158.2%
6/30/2009	136,932	4,520,953	4,384,021	3.0	2,730,018	160.6

For the School Personnel OPEB Fund, the June 30, 2009 UAAL is valued actuarially at $11,866,699,078. The ARC for FY 2012 is $1,054,708,002, or 9.07% of active payroll. The June 30, 2009 valuation considers changes in plan options and premium pricing made to the SHBP for the 2009 and 2010 calendar plan years. These changes reduced the valuation of the UAAL by $1,306,000,000 as compared to the June 30, 2008 valuation; however, this reduction was offset by a deficiency in the ARC of $764,300,000 and experience losses of $404,900,000. The net reduction to the UAAL was $50,451,000.

The funded status of the School Personnel OPEB Fund at June 30, 2008 and June 30, 2009, the most recent actuarial valuation date, is as follows (dollars in thousands):

Date	Actuarial Value of Assets *(a)*	Actuarial Accrued Liability -Entry Age *(b)*	UAAL *(b-a)*	Funded Ratio *(a/b)*	Annual Covered Payroll *(c)*	UAAL as a % of Annual Covered Payroll *((b-a)/c)*
6/30/2008	$ 34,900	$ 11,952,050	$ 11,917,150	0.3%	$ 11,172,154	106.7%
6/30/2009	33,806	11,900,505	11,866,699	0.3	11,628,960	102.0

The Board of Regents Retiree Health Benefit Fund (the "BOR Retiree Plan") is a single-employer, defined benefit, health care 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, 2010, and updated as of December 23, 2010, indicates that as of July 1, 2009, the BOR Retiree Plan has an UAAL in the amount of $3,118,942,000. The ARC for FY 2010 is $381,678,461. For FY 2010, the Board of Regents contributed $69,888,771 to the BOR Retiree Plan for current premiums or claims. BOR Retiree Plan members receiving benefits contributed $27,198,290 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 28 year period from the original 30 year period prescribed by GASB.

The funded status of the BOR Retiree Plan at July 1, 2008 and July 1, 2009, the most recent actuarial valuation date, is as follows (dollars in thousands):

Date	Actuarial Value of Assets *(a)*	Actuarial Accrued Liability -Entry Age *(b)*	UAAL *(b-a)*	Funded Ratio *(a/b)*	Annual Covered Payroll *(c)*	UAAL as a % of Annual Covered Payroll *((b-a)/c)*
7/1/2008	$ 290	$ 3,258,200	$ 3,257,910	0.0%	$ 2,372,385	137.3%
7/1/2009	10,566	3,129,508	3,118,942	0.3	2,399,532	130.0

In FY 2010, a review and correction of the claims expense breakout between Active and Retired participants was performed by the third party claims administrator. The outcome of this review resulted in an increase to previously reported employer contributions and claims/administrative expenses totaling $21.1 million in FY 2009 and $20.4 million in FY 2008. Because BOR Retiree Plan contributions and expenses increased by the same amounts, no restatement was required to the BOR Retiree Plan financial statements. However, the increased employer contributions in FY 2009 and FY 2008 impacted both the annual OPEB cost and net OPEB obligation amounts reported in the Board of Regents Annual Financial Report notes in those years. The June 30, 2009 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 2010, the amount actually contributed to the BOR Retiree Plan, and changes in the Board of Regents' net OPEB obligation to the BOR Retiree Plan (dollar amounts in millions):

	June 30, 2010
Annual required contribution	$381.7
Interest on net OPEB obligation	17.8
Adjustment to annual required contribution	(25.2)
Annual OPEB cost (expense)	374.3
Less: Contributions made	(69.9)
Increase in net OPEB obligation	304.4
Net OPEB obligation - beginning of year (restated)	395.5
Net OPEB obligation - end of year	$699.9

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.

For additional information on the health benefit plans and OPEB, see “Statement of Fiduciary Net Assets Fiduciary Funds June 30, 2010” on pages 34-35 and Note 11, “Postemployment Benefits,” on pages 92-96 in Appendix B hereto.

Also, to facilitate OPEB reporting in accord with the GASB Statements, separate trust funds have been created by statute for administration of the Group Term Life Insurance program for members and retirees of the State employee, legislative and judicial retirement systems. The trustees of the Employees’ Retirement System administer 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.

Under the FY 2008 actuarial valuation, the funding excess in the OPEB life insurance trust (the “State Employees’ Assurance Department”) was $37,229,966 and the funding excess in the active trust was $110,424,467. Under the FY 2009 valuation, the recommended ARC for FY 2012 is $16,173,950. Under the FY 2009 valuation, there is now an UAAL valued actuarially at $105,471,705.

The funded status of the State Employees’ Assurance Department at June 30, 2008 and June 30, 2009, the most recent actuarial valuation date, is as follows (dollars in thousands):

Date	Actuarial Value of Assets *(a)*	Actuarial Accrued Liability -Entry Age *(b)*	UAAL *(b-a)*	Funded Ratio *(a/b)*	Annual Covered Payroll *(c)*	UAAL as a % of Annual Covered Payroll *((b-a)/c)*
6/30/2008	$ 737,114	$ 699,884	$(37,230)	105.3%	$ 2,850,850	(1.3%)
6/30/2009	628,199	733,671	105,472	85.6	2,653,527	4.0

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 the Employees’ Retirement System on or after January 1, 2009, are no longer eligible for the group term life insurance program. 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 the Group Term Life Insurance plan. 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.

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.

Audited June 30, 2010 net assets of the SHBP were a negative $234,057,000 which recognizes the SHBP Incurred But Not Reported (“IBNR”) liability. Employer contribution rates approved by the Board of Community Health in August 2010 (the “2010 ECR”) were subject to limits specified in the FY 2011 Appropriations Act. In projecting FY 2011 plan expenditures and revenues, DCH utilized: (i) the 2010 ECR, (ii) calendar year 2010 plan experience through July 2010, and (iii) calendar year 2011 plan design and premium changes. In FY 2010 the SHBP utilized the balance of the June 30, 2009 net assets from the Enterprise Fund to cover FY 2010 expenditures. Advance funding for OPEB was obtained by liquidating long-term investments in the Georgia Retiree Health Benefit Fund and using the proceeds to cover FY 2010 retiree expenditures. IBNR reserve funds also were used to partially cover expenditures.

DCH projects growth in expenses of $20.6 million, or 0.6%, in FY 2011, and $235.4 million, or 8.0%, in FY 2012. In order to address the projected deficit of $155.3 million in FY 2011, DCH brought proposed plan design changes, premium increases, and employer rate resolutions to the Board of Community Health on August 26, 2010. Specifically, the Board of Community Health adopted a resolution providing that DCH will request that the Amended Appropriations Act for FY 2011 authorize an increase of $50,000,000 to the Department of Education Non-Certificated Public School Employee Contribution. The August 26, 2010 DCH resolution also provided that the State Employee Plan Employer Contribution Rate ("ECR") shall be 25.586% of total salaries for the second and third quarters of FY 2011; that the Teachers Plan ECR shall be 21.955% of State-based salaries for local school systems and RESAs and 21.955% of total salaries for libraries for the second and third quarters of FY 2011; and that the Non-Certificated Public School Employee Per Member Per Month Contribution Rate shall be $162.72 for September, October and November of 2010 and increase to $218.20 effective December 2010. Together these employer payments are projected to result in an additional $75,000,000 in funding for the SHBP in FY 2011. The increase in the Non-Certificated Public School Employee Per Member Per Month Contribution Rate to $218.20 is projected to result in $49,000,000 in additional funding for the SHBP in FY 2012. DCH plans to continue working with the Governor's Office and State Legislature during the 2011 General Assembly to ensure FY 2012 revenues are sufficient to cover projected FY 2012 expenditures, and to begin the process of replenishing the IBNR reserves as necessary.

The Board of Community Health also approved employee premium and tobacco and spousal surcharge increases, and plan design changes such as: plan consolidation (removal of Open Access Plan); increases in co-pays (medical and pharmacy), deductibles, and out-of-pocket maximums; as well as Medicare Advantage specific changes, such as increases in out-of-pocket maximums and pharmacy co-payments, and changing outpatient non-surgical services from co-payments to coinsurance.

These changes are projected to eliminate the deficit of the SHBP in FY 2011 and partially restore IBNR funding. The changes are projected to result in a remaining deficit of the SHBP of $37,000,000 in FY 2012, although DCH will continue to work with the Governor's Office and State Legislature during the 2011 General Assembly to ensure revenues are sufficient to cover expenditures in both FY 2011 and FY 2012.

The State's most recent estimate of the net impact of the federal health care reform bill, the Affordable Care Act ("ACA"), to the SHBP is an estimated additional increase of $46.3 million in FY 2011 and $61.4 million in FY 2012. The State has received its first payment from the early retiree reinsurance program under the ACA of $34.9 million. The State estimates that the ACA will result in additional enrollees in the State's Medicaid program and Children's Health Insurance Program of approximately 552,300 in federal fiscal year 2014, climbing to 656,257 enrollees by federal fiscal year 2020. The cumulative cost of the additional enrollees and other changes to the programs from federal fiscal year 2014 to federal fiscal year 2020 is estimated to be $2.5 billion.

Board of Regents Health Benefit Plan. The Board of Regents offers its employees and retirees access to three self-insured health care plan options: a PPO plan, a high-deductible plan, and an HMO plan. The Board of Regents also offers one fully insured HMO plan with Kaiser Permanente. The Board of Regents previously offered an indemnity plan, which was discontinued effective January 1, 2010. The Board of Regents and participating employees and retirees pay premiums to the self-funded health care plan options to access benefits coverage. The respective self-insured health care plan options are included in the financial statements of the Board of Regents. All units of the Board of Regents share the risk of loss for claims associated with the self-funded plans. The reserve fund for the self-funded plans is considered to be a self-sustaining risk fund. All self-funded health care plan options provide a maximum lifetime benefit of $2,000,000 per person. 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 health care plans.

The prescription drug plan offered to Board of Regents employees during FY 2011 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 Board of Regents.

The self-funded plan reserve fund had the following cash basis activity for FY 2010: premiums collected of $260,077,988; claims and expenses paid of $276,260,769; Medicare Part D subsidies collected of $5,660,229; prescription rebates of $9,325,688; and other income of $2,000,631, resulting in a fund surplus for FY 2010 of $803,767. As of June 30, 2009, the fund had IBNR claims of $21,827,567 for active employees and $6,626,917 for retirees. 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, and held investment assets of $6.9 million in the Board of Regents OPEB fund and $9.5 million in the self-funded reserve fund.

The Board of Regents has implemented several plan changes to address potential deficits. These include: increasing the employee contribution from 25% to 30%; increasing premium rates; eliminating the indemnity health care plan option effective January 2010; seeding of the new high deductible plan in calendar years 2010 and 2011; implementing a more restrictive version of the PPO plan for calendar year 2011; converting the high-deductible plan and one HMO plan to the self-funding basis; and adding a tobacco surcharge for calendar year 2011. For calendar year 2011, the Board of Regents approved premium increases of 9.7% for all plans except the Kaiser HMO, which increased 8.3%. The Board of Regents has 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.

Retirement Systems. The State administers various retirement plans under two major retirement systems: the Employees Retirement System of Georgia ("ERS") and the Teachers Retirement System of Georgia ("TRS"). For additional information on the State's pension plans, see Note 10, "Retirement Systems," on pages 88-91 in Appendix B hereto. The funded status of the ERS and TRS plans at June 30, 2009, the most recent actuarial valuation date, is as follows (dollars in thousands):

Retirement System	Actuarial Value of Assets *(a)*	Actuarial Accrued Liability -Entry Age *(b)*	UAAL *(b-a)*	Funded Ratio *(a/b)*	Annual Covered Payroll *(c)*	UAAL as a % of Annual Covered Payroll *((b-a)/c)*
ERS Plan*						
6/30/09 valuation	$13,613,606	$15,878,022	$2,264,416	85.7%	$ 2,674,155	84.7%
6/30/08 valuation	14,017,346	15,680,857	1,663,511	89.4	2,809,199	59.2
TRS						
6/30/09 valuation	$54,818,373	$62,870,138	$8,051,765	87.2%	$10,641,543	75.7%
6/30/08 valuation	54,354,284	59,133,777	4,779,493	91.9	10,197,584	46.9

* The ERS Plan for State employees, primarily in the executive branch, is the largest of several plans in the ERS.

Effective July 1, 2010, the TRS Board of Trustees adopted an actuarial valuation interest smoothing methodology for the TRS. The TRS actuarial report prepared by Cavanaugh Macdonald Consulting LLC dated July 21, 2010 indicates that as of June 30, 2009, TRS has "unfunded accrued liability contributions" in the amount of $823.7 million. The report also indicates that based on the total employer contribution rate of 10.28% of payroll (allocating 4.98% to the unfunded accrued liability contributions) the unfunded accrued liability will be amortized within a two year period. Contributions from members increased by $24.6 million, or 4.3%, from $567.6 million in FY 2009 to $592.2 million in FY 2010. Contributions by employers increased by $31.1 million, or 3.0%, from $1.03 billion in FY 2009 to $1.06 billion in FY 2010. The increases in FY 2010 are due to a contribution rate increase which offset a decrease in the number of active members during the fiscal year. The TRS Board of Trustees shortened the amortization period from thirty years to two years at June 30, 2009 in accordance with the goal of maintaining stable contribution rates. The actuarial report also indicates that TRS has adopted a valuation interest smoothing methodology that is designed to reduce contribution volatility by requiring increased contributions during periods of rising revenues and investment returns while maintaining the current contribution rates during periods of declining revenues and depressed returns.

The actuarial valuation interest smoothing methodology currently assumes an ultimate investment rate of return of 7.50%, with cost-of-living adjustments of 3.00% annually and inflation at 3.75% annually and projected salary increases of 3.20% - 8.6%. The actuarial valuation interest smoothing methodology uses an initial rate of 8.77% for a 23-year look forward period based on the actual rate of return during the 7-year look back period, such that the average over the combined 30-year period equals the long-term investment rate of return adopted by the TRS Board of 7.50%. After the 23-year look forward period, the ultimate investment rate is 7.50%. The actual return for FY 2009 was (13.1%) and for FY 2010 was 11.1%. As of December 31, 2010, the average return for the past 25 years was 9.2%.

On September 27, 2010, Cavanaugh Macdonald Consulting LLC issued a supplemental report valuing the UAAL in accordance with the actuarial methodology that was in effect prior to the adoption by TRS of the actuarial valuation interest smoothing methodology. Upon consultation with its auditors, TRS determined to use the prior actuarial methodology, rather than the actuarial valuation interest smoothing methodology, for financial reporting purposes. The prior actuarial methodology produces an UAAL of $8.052 billion and a funded ratio of 87.2% as of June 30, 2009, as shown in the chart above. The actuarial valuation interest smoothing methodology, by contrast, would have produced an UAAL of $823.7 million and a funded ratio of 98.5% as of June 30, 2009. Beginning in FY 2012, TRS has adopted the actuarial valuation interest smoothing methodology for funding purposes.

The TRS actuarial report indicates that, in the opinion of the firm, TRS is operating on an actuarially sound basis, and in conformity with the minimum funding standards of Georgia law. As of June 30, 2010, TRS held assets with a market valuation of approximately $45.9 billion, an increase of 8.1% from the June 30, 2009 valuation of approximately $42.8 billion.

The ERS actuarial report prepared by Cavanaugh Macdonald Consulting LLC dated April 15, 2010 indicates that as of June 30, 2009, ERS has an UAAL in the amount of $2,264.4 million. The report also indicates that based on the total employer contribution rate of 6.88% of compensation for "Old Plan" members employed prior to July 1, 1982, 11.63% of compensation for "New Plan" members employed on or after July 1, 1982 and before January 1, 2009 and 7.42% for Georgia State Employees Pension and Savings Plan ("GSEPS") members employed on or after January 1, 2009 (allocating 4.67% to the unfunded accrued liability contributions for each Plan), the unfunded accrued liability will be amortized within a thirty year period. The actuarial assumptions used in the ERS actuarial report include an investment rate of return of 7.50%, projected salary increases of 5.45% - 9.25%, an annual inflation rate of 3.75%, and no cost-of-living adjustments. In upcoming meetings, the ERS Board is expected to be provided with information regarding the "valuation interest smoothing methodology" (the methodology which was recently adopted by the TRS Board), along with any other options for their consideration. 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 firm, ERS is operating on an actuarially sound basis. As of June 30, 2010, ERS held assets with a market valuation of approximately $10.9 billion.

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 the Revenue" and these officials and their employees are eligible for membership in the ERS. Currently there are approximately 1,300 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 a balance of approximately $6.2 million for FY 1997 – FY 2009. The actuarial report for FY 2010, scheduled to be released in the spring of 2011, will reflect a net pension obligation and repayment schedule for local tax commissioners of approximately $6.2 million for these past due amounts. The State anticipates repaying this obligation through higher employer contribution rates.

The Governor's budget recommendation for the amended FY 2011 budget includes $11,022,124 for the Department of Revenue to fully fund the pension liability on local tax officials' retirement benefits for FY 2010 – FY 2011.

Interstate Water Disputes Among Georgia, Alabama and Florida. The State is involved in water supply litigation in the United States District Court for the Middle District of Florida, the United States District Court for the Northern District of Alabama, and the Eleventh Circuit Court of Appeals concerning the operation of U.S. Army Corps of Engineers ("Corps") dams and reservoirs in North Georgia for water supply purposes. Buford Dam impounds 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 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 Buford Dam and Lake Lanier were consolidated by the Judicial Panel on Multidistrict Litigation (the "JPML") and assigned to U.S. District Judge Paul Magnuson in the Middle District of Florida (the "ACF Basin Litigation"). The ACF 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 Basin Litigation are: (1) several cases involving the authority of the Corps to operate Lake Lanier for water supply (this portion of the ACF Basin Litigation is referred to as "Phase 1"), and (2) cases dealing with the quantity of water that the Corps must release from Lake Lanier 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 Basin Litigation is referred to as "Phase 2").

Phase 1 of the ACF 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. Other parties, including the States of Alabama and Florida, 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 Buford Dam 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 intervened 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 Basin Litigation (the "Phase 1 Order"). In the Phase 1 Order, Judge Magnuson held, among other things, that: (1) water supply is not an authorized purpose of the Buford Dam 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 Order allows the Corps to 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. As of July 17, 2012, in the absence of such legislation or settlement, direct water supply withdrawals from Lake Lanier must cease (with the exception of certain withdrawals by the Cities of Buford and Gainesville), and releases from Buford Dam for water supply use downstream must 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. In September 2009, the State of Georgia, other parties aligned with it, and the Corps appealed the Phase 1 Order. Alabama and Florida filed a motion to dismiss the appeals on the grounds that the Phase 1 Order was not an appealable order. On January 20, 2010, the Eleventh Circuit denied Alabama and Florida's motion to dismiss the appeals. 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. Briefs have been filed and oral argument is scheduled for March 9, 2011. Possible outcomes include a reversal or affirmance, in whole or in part, of the Phase 1 Order.

In Phase 2 of the ACF Basin Litigation, the State of Florida and other parties aligned with it (the "Florida Parties") claimed that the Corps reservoir operating plan for the federal reservoirs in the ACF 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 Basin Litigation (the "Phase 2 Order"). The Florida Parties appealed the Phase 2 Order 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' briefs in the Phase 2 appeals are due on April 1, 2011, but the Florida Parties have filed a motion asking that the appeals be stayed further. 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 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 federal court in Alabama (the "ACT Basin Litigation"). The ACT 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 County-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 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 Basin Litigation has been stayed for much of the past twenty years and is currently stayed to allow the States of Georgia and Alabama to engage in settlement discussions. The court has directed the parties to submit a schedule for completion of the litigation in the event that they have not reached an agreement in principle by March 16, 2011. Were the Alabama Parties to prevail in the ACT 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. More than 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 February 17, 2011, the balance of outstanding loans from FUA to the State of Georgia was $634,500,000. Based on current economic conditions, claim costs, and projected tax contributions, it is estimated that additional advances of approximately $160,000,000 may be required before April 30, 2011. Subsequent to April 30, 2011, tax revenues are projected to provide adequate funding to suspend borrowing from FUA. Congress provided a temporary waiver of interest accrual on such borrowings during 2010 as part of the Federal stimulus program legislation. However, the waiver expired December 31, 2010, and interest is currently accruing at 4.0869% per annum during calendar year 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 - 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 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. While a repayment plan has not yet been implemented, the prior Commissioner of Labor adjusted rates for 2011 within applicable statutory authority to increase total employer premiums for unemployment insurance taxes upward slightly from pre-2011 levels. Any increase in unemployment insurance premium revenues beyond what is needed to pay claims in 2011 may be available to begin repayments of the principal component of the borrowed amount.

Department of Behavioral Health and Development Disabilities ("DBHDD") Psychiatric Hospitals. In January 2009, the Department of Justice ("DOJ") filed a complaint in the United States District Court for the Northern District of Georgia, Civil Action 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 significant improvements 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, Civil Action Case No. 1:10-CV-0249. 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 terminated, 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 patients.

Knipp, et al. v. Perdue, 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 was extended by agreement of the parties through February 3, 2011. A second extension of the preliminary injunction was entered by agreement of the parties through April 4, 2011. The State has until April 15, 2011 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 currently has a cash reserve of approximately $18,000,000 for purposes of this liability. However, for the current State fiscal year, the adopted State budget anticipates a transfer of $18,000,000 from GTA to the State treasury in accordance with O.C.G.A. § 50-25-4(b). If GTA makes the required transfer, it will not have a reserve in place for any amount finally determined to be due to HHS-DCA and such 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. GTA has no reserves for any such amount and additional appropriations to DHS and DBHDD likely would be required if such amount were finally determined to be due to HHS-DCA.

Insurance

The types 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, 2010,” Notes to the Financial Statements - Note 12: Risk Management.”

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
2006	4,728,045	4,507,138	220,907	4.7%
2007	4,795,438	4,574,572	220,866	4.6
2008	4,838,259	4,535,876	302,383	6.2
2009 (1)	4,768,923	4,311,728	457,195	9.6
2010 (2)	4,692,049	4,213,160	478,889	10.2

(1) Not seasonally adjusted
(2) Not seasonally adjusted, preliminary estimates
Source: U.S. Department of Labor, Bureau of Labor Statistics

State Employees
(as of June 30)

Year	Total Employees	Part Time	Full Time
2006	83,057	791	82,226
2007	82,527	750	81,777
2008	82,238	672	81,566
2009	78,113	615	77,498
2010	75,810	615	75,195

Note: Excludes Employees of the University System of Georgia
Source: Georgia State Merit System

Major Nongovernmental Employers

COMPANY

Delta Air Lines, Incorporated
Emory Health Care
Emory University
Georgia Power Company
GMRI Inc.
Lowe's Home Centers
Mohawk Carpet
Publix Supermarkets, Incorporated
Shaw Industries, Incorporated
Target
The Home Depot Inc.
The Kroger Company
United Parcel Service
Wal-Mart Stores, Incorporated
WellStar Health System

Sources: Employers - Georgia Department of Labor; State of Georgia Comprehensive Annual Financial Report Fiscal Year Ended June 30, 2010

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

Sector	2005	2006	2007	2008	2009	2010
Natural Resources and Mining	12.1	12.2	11.9	10.4	9.3	8.9
Construction	208.8	218.8	221.2	204.1	166.5	144.4
Manufacturing	449.8	447.5	431.4	409.1	357.0	334.8
Total--Goods - Producing	670.7	678.5	664.5	623.6	532.8	488.1
Trade, transportation and utilities	852.9	871.3	886.9	873.9	818.2	818.4
Information	112.2	111.4	111.5	109.0	104.8	100.8
Financial activities	225.4	230.7	231.2	224.3	210.4	194.4
Professional and business services	536.1	551.5	563.6	556.7	506.7	514.5
Education and health services	427.0	442.8	458.7	469.3	475.6	492.3
Leisure and hospitality	372.0	384.0	396.1	393.9	380.9	374.8
Other services	158.3	159.2	160.5	160.9	157.8	158.9
Government	646.7	659.6	672.5	690.7	689.5	685.3
Total--Service-Producing	3,330.5	3,410.6	3,481.0	3,478.6	3,343.8	3,339.1
Total non-farm	4,001.2	4,089.1	4,145.5	4,102.2	3,876.6	3,827.2

Source: U. S. Department of Labor, Bureau of Labor Statistics; 2010 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
2005	$16.56	$14.84	$14.56	87.9%	98.1%
2006	16.81	15.08	14.74	87.7	97.7
2007	17.26	15.68	14.88	86.2	94.9
2008	17.74	16.12	14.83	83.6	92.0
2009	18.23	16.62	15.42	84.6	92.8

Average Annual Growth Rates in Hourly Earnings

Years	U.S.	Southeast (1)	Georgia
2000-2005	2.9%	2.8%	2.3%
2000-2009	2.7	2.8	1.9

(1) Southeast refers to the twelve-state region consisting 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*

Population Trends

	1980	1990	2000	2010
State Total	5,463,105	6,478,000	8,186,453	9,687,653
Percent Urban	62.4%	65.0%	71.6%	na
Percent Rural	37.6%	35.0%	28.4%	na
Median Age	28.6 years	31.5 years	33.4 years	na

Source: U.S. Bureau of Census

Georgia Public School Enrollment (PK –12)

Year	Annual Enrollment (1)
2006-07	1,629,157
2007-08	1,649,589
2008-09	1,655,792
2009-10	1,667,685
2010-11	1,679,412

(1)Enrollment as of October, yearly.

Source: Georgia Department of Education

Per Capita Income

			Georgia		
Year	US	Southeast (1)	Income	% of U.S.	% of Southeast
2005	$34,690	$31,324	$31,260	90.1	99.8%
2006	36,794	33,457	32,299	87.8	96.5
2007	39,392	34,011	34,612	87.9	101.8
2008	40,166	34,710	34,849	86.8	100.4
2009	39,138	34,211	33,786	86.3	98.8

Average Annual Growth Rates in Per Capita Income

Years	U.S.	Southeast(1)	Georgia
1980-1990	6.8%	7.2%	7.7%
1990-2000	4.4	4.4	4.7
2000-2009	3.1	2.9	2.1

(1) Southeast refers to the twelve-state region consisting 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 and Bureau of Census

Median Household Income

Year	U.S.	Georgia	Georgia % of U.S.
2005	$46,326	$45,926	99.1%
2006	48,201	49,344	102.4
2007	50,233	48,641	96.8
2008	50,303	46,227	91.9
2009	49,777	43,340	87.1

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

Real Per Capita Gross State Product

Year	United States	Southeast (1)	Georgia
2005	$42,449	$38,220	$39,918
2006	43,189	38,710	39,673
2007	43,646	38,562	39,761
2008	43,308	37,814	38,363
2009	42,031	36,719	36,677

(1) Southeast refers to the twelve-state region consisting 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's Revenues and Personal Income

	Georgia Revenues (1)		State Personal Income (2)		
Fiscal Year	$Billions	Annual Percent Change Over 5-Year Period	$Billions	Annual Percent Change Over 5-Year Period	Georgia Revenues as a % of State Personal Income
2006	17.338	9.5%	311.855	6.6%	5.6%
2007	18.840	9.1	330.426	6.3	5.7
2008	18.728	5.8	341.530	5.3	5.5
2009	16.766	1.5	333.996	3.4	5.0
2010	15.216	-0.8	343.618	2.0	4.4

(1) Amount derived from “Total General Funds,” ”GEORGIA REVENUES” herein.
(2) 2005 through 2009--average of total personal income for the four calendar quarters of the fiscal year
Note: Annual Percent Change for 2006, 2007, 2008 and 2009 computed from 2005.

Sources: U.S. Department of Commerce, *Survey of Current Business*, February, April, and November, yearly; Report of the State Auditor (FY 2000, FY 2005); *Budgetary Compliance Report*, (FY 2006 – FY 2008); 2009 and 2010, State Accounting Office.

EARNINGS BY MAJOR INDUSTRY: 2009 Annual Average
(Billions, Seasonally Adjusted Annual Rate)

	Construction	Manufacturing	Trade	Services	Government
Georgia	$12	$24	$32	$130	$48
Alabama	6	15	12	45	25
Florida	26	23	57	244	79
North Carolina	12	30	27	107	52
South Carolina	5	14	12	42	24
Tennessee	8	21	20	84	24
Southeast	106	188	225	954	403
United States	478	900	974	4,557	1,607

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

SELECTED AGRICULTURAL DATA

Georgia Cash Receipts by Selected Commodities 2005-2009
(Million $)

Year	Crops	Livestock & Dairy Products	Poultry & Eggs	Vegetables & Melons	Total Receipts (1)
2005	$2,177	$4,017	$3,287	$532	$6,194
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

(1) Total Receipts is the sum of Crops and Livestock & Dairy Products.

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

2009 Farm Cash Receipts (Millions)

	Georgia	United States
Crops:		
Food Grains	$ 61	$ 14,400
Feed Crops	205	50,200
Cotton	473	3,500
Oil Crops	530	31,900
Vegetables	647	20,600
Fruits & Nuts	219	19,000
All Other incl. Tobacco	421	24,100
Total Crops	2,556	163,700
Livestock & Dairy:		
Meat Animals	349	58,600
Dairy Products	202	24,300
Miscellaneous Livestock	75	4,300
Poultry & Eggs	3,665	32,500
Total Livestock & Dairy	4,291	119,700
Total Farm Cash Receipts	$6,847	$283,400

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

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APPENDIX B

STATE OF GEORGIA

BASIC FINANCIAL STATEMENTS FOR

FISCAL YEAR ENDED JUNE 30, 2010

The basic financial statements of the State as of June 30, 2010, and for the year then ended, included as this Appendix B, have been audited by the State of Georgia Department of Audits and Accounts, Atlanta, Georgia, to the extent and for the period indicated in its report thereon that appears in this Appendix B. Such financial statements have been included herein in reliance upon the report of the State of Georgia Department of Audits and Accounts given upon the authority of such agency as experts in accounting and auditing. The State of Georgia Department of Audits and Accounts, as a matter of policy, has not and will not sign a written consent to the inclusion of its audit report in this Appendix B. The State of Georgia Department of Audits and Accounts could use the defense of sovereign immunity against any claim based upon its negligence in performing the audit of the State's financial statements.

The State of Georgia Department of Audits and Accounts has not been engaged to perform and has not performed any procedures on the financial statements addressed in its audit report included in this Appendix B, since the date of its audit report included herein. The State of Georgia Department of Audits and Accounts also has not performed any procedures relating to this Official Statement.

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State of Georgia

Comprehensive Annual Financial Report

For the fiscal year ended June 30, 2010

Prepared by:
State Accounting Office


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Introductory Section

State Accounting Office of Georgia
Fiscal Leadership for Georgia

Sonny Perdue
Governor

Greg S. Griffin
State Accounting Officer

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

January 7, 2011

The Honorable Sonny Perdue, 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, 2010 (FY10). This report is prepared by the State Accounting Office and is submitted in accordance with the *Official Code of Georgia Annotated* 50-50b-3(7).

Although the State manages and budgets its fiscal affairs on a statutory basis of accounting, the financial statements in this report have been prepared in accordance with Generally Accepted Accounting Principles (GAAP) applicable to governments as prescribed by the Governmental Accounting Standards Board (GASB). They are presented in a manner designed to set forth the financial position, results of operations, and changes in net assets or fund balances of the major funds and nonmajor funds in the aggregate. All required disclosures have been presented to enable the reader to gain an understanding of the state's financial activities.

The CAFR is presented in three sections: *Introductory*, *Financial* and *Statistical*. The *Introductory Section* provides an overview of the State's current initiatives and summary financial data. The *Financial Section* contains a Management's Discussion and Analysis (MD&A) section, the financial statements, notes to the financial statements, and Required Supplementary Information. The MD&A contains additional financial analysis and supplementary information that is required by GASB and should be read in conjunction with this transmittal letter. The State's MD&A can be found immediately following the independent auditor's report. Included in the section titled Required Supplementary Information are schedules comparing budgeted to actual activity. These statements are prepared in accordance with the State's budgetary basis of accounting or statutory basis. More detailed information on the statutory basis of accounting and the results of operations on that basis for fiscal year 2010 (FY10) can be found in the Budgetary Compliance Report (BCR) separately issued in December 2010. In addition to the basic financial statements, the CAFR includes: combining financial statements that present information by fund category, certain narrative information that describes the specific fund categories and supporting schedules. The *Statistical Section* contains selected financial, economic and demographic data about the State that is useful in evaluating the economic condition of the government.

PROFILE OF THE STATE OF GEORGIA

The State of Georgia was the last of the original 13 colonies, founded on February 12, 1733, and became the fourth state by ratifying the U.S. Constitution on January 2, 1788. Georgia is an economic hub of the southeast. The capitol of Atlanta 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 9.8 million people.

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. The duties of each branch are outlined in the *Constitution* and in the *Official Code of Georgia Annotated*. State government services provided to citizens include education, health and welfare, transportation, public safety, economic development, recreation and conservation.

This report presents information on the financial position and operations of state government as one reporting entity. The various agencies, departments, boards, commissions and other organizational units of Georgia state government which constitute the State financial reporting entity are included in the CAFR in accordance with criteria established by the GASB. Accordingly, this report contains information on Georgia's primary government, and on component units that are financially accountable to the State.

ECONOMIC CONDITIONS AND OUTLOOK

Georgia's economy was significantly impacted by the national recession. Economic indicators show that the impact of the recession on Georgia's economy was more severe than for the United States as a whole. The U.S. Bureau of Labor Statistics reported that Georgia's unemployment rate peaked at 10.5% in early calendar year 2010 and had improved slightly to 10.0% by June 2010, as compared to the national rate of 9.5%. Georgia's unemployment rate has consistently tracked higher than the national rate. While the national recession officially ended in June 2009, economic indicators for Georgia had only begun to show marginal improvements by the end of FY10.

Total General Fund revenues in FY09 fell by 10.5% from FY08 and the downturn continued into FY10. Total General Fund revenues for FY10 fell by 9.2% over FY09 General Fund revenues. To manage this revenue shortfall several actions were taken to ensure that state finances remained fiscally sound. The Governor reduced the revenue estimate for FY10 by $1.8 billion in the amended budget. This required significant spending reductions across state government. In addition, the State maximized the use of appropriate and remaining state agency reserve funds, instituted salary freezes for employees and, if needed, furloughs for certain employees. When possible, federal stabilization funds received under the American Recovery and Reinvestment Act of 2009 (ARRA) were used to replace state funds and protect the delivery of necessary services. The budget sought to ensure that Georgia priorities for an Educated Georgia, a Healthy Georgia, a Safe Georgia, and Growing Georgia were maximized.

Looking forward, Georgia's economy has begun the long climb back from the national recession. However, the pace of the economic recovery has been modest and employment growth has been slow and uneven. Initial unemployment claims are now running below levels of a year ago. The economy added 10,000 new jobs in the first ten months of calendar year 2010 and further improvement is expected in 2011. These gains came despite continued reductions in government employment levels. Other indicators also are trending positive. Consumer spending has increased and retail sales are now 8% above year ago levels. Container traffic through the Georgia Ports Authority increased 9.7% in FY10 over FY09 and is near FY08 levels. Through November 2010, net tax revenues, as reported by the Georgia Department of Revenue, were up 7.4% year-to-date for FY11 as compared to the same prior year period. Recently enacted tax legislation by Congress, including the extension of current tax rates and a temporary reduction in the payroll tax, should increase economic growth in 2011. Further economic data for the State can be found in the statistical section of this report.

Fiscal pressures will continue in the State of Georgia for some time. The return to positive revenue growth is hopeful, but the State is several years away from again reaching the revenue peak of FY07. In July 2010, the Governor announced that additional agency spending reductions were necessary to fill shortfalls and that agencies would be required to submit budgets with significant spending reductions in FY11 and FY12 years. The magnitude of these cuts has been increased by the loss of almost $1.3 billion in ARRA funds in FY12. Programs and services across the State will be affected by these budgetary challenges. It will also require a continuing re-examination of the efficiency and effectiveness of agency programs as well as an ongoing review of the core responsibilities of State government in a period of fiscal constraint.

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 has 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 located at the beginning of the financial section of this report.

Federal laws and regulations require that the State undergo an annual audit in conformity 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, which includes a schedule of expenditures of federal awards, a report on internal control and compliance applicable to each major program, and a schedule of findings and questioned costs, is included in a separately issued State of Georgia Single Audit Report. Also included is a report on internal control over financial reporting and compliance with certain laws, regulations, contracts and grants in accordance with *Government Auditing Standards.*

The State Accounting Office prepared these financial statements and is responsible for the completeness and reliability of the information presented in this report, based on a comprehensive internal control framework that is designed to protect the State's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the State's financial statements in conformity with GAAP. Because the cost of internal controls should not exceed the benefits likely to be derived, the State's internal control structure is designed to provide reasonable, but not absolute, assurance that the financial statements will be free from material misstatement.

CONCLUSION AND ACKNOWLEDGEMENTS

In conclusion, I believe this report provides information useful in evaluating the financial activity of the State of Georgia. We in the State Accounting Office express our appreciation to the fiscal officers and staff throughout State government, and to the staff of the Department of Audits and Accounts for their dedicated efforts in assisting us in the completion of this report.

I would also like to express my thanks to the many dedicated employees within the State Accounting Office, who continue to carry out our mission. I am proud to have them on my team as we reaffirm our commitment to maintaining the highest standards of accountability in financial reporting.

Respectfully submitted,

Greg S. Griffin

State Accounting Officer

STATE OF GEORGIA

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JUDICIAL

Supreme Court
Court of Appeals
Superior Courts
District Attorneys
Judicial Agencies

EXECUTIVE

Constitutional Officers

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

Governor

Office of Planning and Budget
Governor's Office

State Accounting Office
Technical College System of Georgia
Department of Administrative Services
Department of Revenue
Department of Banking and Finance
Department of Defense
Department of Community Health
Department of Public Safety
Georgia Bureau of Investigation
Georgia Forestry Commission
Department of Corrections
State Board of Pardons and Paroles
Department of Human Services
Department of Juvenile Justice
Department of Natural Resources
Department of Community Affairs
Department of Behavioral Health & Developmental Disabilities
Department of Transportation
Department of Driver Services
Department of Economic Development
Georgia Student Finance Commission
University System of Georgia
State Personnel Administration
Department of Education
Department of Early Care and Learning
State Employees' Retirement System of Georgia
Department of Veterans Service
State Board of Workers' Compensation
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


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State of Georgia

Principal State Officials
June 30, 2010

Executive:

Sonny Perdue .... *Governor*

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

Thurbert E. Baker .... *Attorney General*

Michael L. Thurmond .... *Commissioner of Labor*

Kathy Cox .... *State Superintendent of Schools*

John W. Oxendine .... *Commissioner of Insurance*

Thomas T. Irvin .... *Commissioner of Agriculture*

Lauren “Bubba” McDonald, Jr. (Chairman) .... *Public Service Commissioner*
Robert “Bobby” Baker .... *Public Service Commissioner*
Chuck Eaton .... *Public Service Commissioner*
H. Doug Everett .... *Public Service Commissioner*
Stan Wise .... *Public Service Commissioner*

Legislative:

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

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

Judicial:

Carol W. Hunstein .... *Chief Justice of the Supreme Court*

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ACKNOWLEDGEMENTS

The Georgia Comprehensive Annual Financial Report (CAFR) for the fiscal year ending June 30, 2010 was prepared by:

STATE ACCOUNTING OFFICE

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

STATEWIDE ACCOUNTING AND REPORTING

Harriman C. Clemons	Michael Rodgers
Bobbie R. Davis	Jennifer Sanders
Zeina Diallo	Melesse Siratu
Eddy A. Hicks	Ellen K. Tate
Sharon Hill	Drew Townsend
Christina R. Palmer	Sandra Warr
Kristi Rayford	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.

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Financial Section

DEPARTMENT OF AUDITS AND ACCOUNTS

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

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

INDEPENDENT AUDITOR'S REPORT

The Honorable Sonny Perdue
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, 2010, 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'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	10%	25%
Business-Type Activities	3%	16%
Aggregate Discretely Presented Component Units	94%	95%
Governmental Fund - General Fund	14%	22%
Governmental Fund - Georgia State Financing and Investment Commission	100%	100%
Proprietary Fund/Enterprise Fund -State Employees' Health Benefit Plan	100%	100%
Aggregate Remaining Fund Information	90%	44%

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 Georgia Lottery Corporation, Georgia College & State University Foundation, Georgia Southern University Housing Foundation, Inc., Georgia State University Foundation, Georgia Tech Athletic Association, Georgia Tech

Facilities, Inc., Georgia Tech Foundation, Inc., Kennesaw State University Foundation, Inc., Medical College of Georgia Foundation, Inc., Medical College of Georgia Health, Inc., Medical College of Georgia Physician's Practice Group Foundation, University of Georgia Athletic Association, Inc., University of Georgia Foundation, University System of Georgia Foundation, and the Valdosta State University Auxiliary Services Real Estate Foundation 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 also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 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, 2010, and the respective changes in financial position and cash flows, where applicable, 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 $ 868,319,197 which represents the State of Georgia's liability for teachers salaries earned before June 30, 2010, but not paid until July and August, 2010. This liability was partially funded by the recognition of an accounts receivable of American Recovery and Reinvestment Act funds (State Fiscal Stabilization funds) at June 30, 2010 in the amount of $126,169,757. State appropriations for the subsequent fiscal year were available for obligation to fund the remainder of this liability even though the period to which the appropriation applied had not begun. The recognition of the State-funded portion of this liability in the amount of $742,149,440 at June 30, 2010, 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 will issue our report dated January 7, 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 19 and the required supplementary information on pages 117 through 123 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, the Supplementary Information – Combining Statements, and the Statistical Section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Supplementary Information - combining statements on pages 129 through 203 has 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, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The Introductory Section on pages i through ix and the Statistical Section on pages 207 through 233 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

Russell W. Hinton, CPA, CGFM
State Auditor

January 7, 2011

STATE OF GEORGIA

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MANAGEMENT'S DISCUSSION AND ANALYSIS


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Management of the State of Georgia 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 of Georgia is for the fiscal year ended June 30, 2010. We encourage readers to consider this information in conjunction with the additional information that is furnished in the letter of transmittal, which can be found in the Introductory Section of this report, and with the State's financial statements, which follow this narrative.

FINANCIAL HIGHLIGHTS

The national recession that impacted the State's 2009 financial results continued into fiscal year 2010. Federal funds received under the American Recovery and Reinvestment Act of 2009 (ARRA) were used to provide additional funding to protect the delivery of necessary services. These funds were administered by 22 different State agencies and departments and impacted 84 federal programs. Both of these significant events impacted the financial operations of the State in fiscal year 2010.

Government-wide

- ✓ The assets of the State exceeded its liabilities at the close of the fiscal year by $19.8 billion (reported as "net assets"). Of this amount, a negative balance of $1.2 billion was reported as "unrestricted net assets." A positive balance in "unrestricted net assets" would represent the amount available to meet the State's ongoing obligations to citizens and creditors. **(Table 1)**

- ✓ The State's total net assets (including restatement of the prior year balance) decreased by $259 million. Net assets of governmental activities increased $555 million while net assets of business-type decreased $814 million. **(Table 2)**

- ✓ During the fiscal year, the State had total revenues of $44.8 billion which was slightly less total expenses of $45 billion (excluding transfers to business-type activities) by approximately $200 million. Taxes of $14.6 billion and operating grants and contributions of $23.5 billion were the primary sources of revenue. **(Table 2)**

- ✓ The State reported a net book value investment in capital assets of $28.8 billion, an increase of $1.3 billion or 4.85% compared to prior year-end. **(Table 3)**

Fund

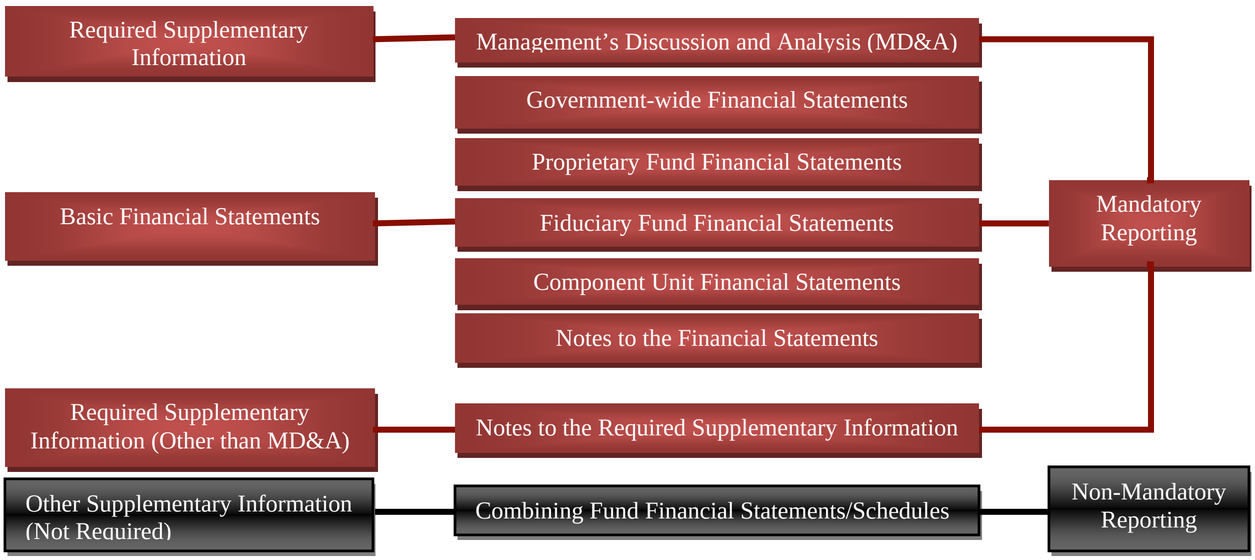
- ✓ The State's General Fund balance at fiscal year-end was $3.7 billion, an increase of $700 million from $3.0 billion reported in the previous year. The unreserved fund deficit for the General Fund was $41.8 million or .14% of total General fund expenditures.

Long-term Debt

- ✓ The State's outstanding bond debt at June 30, 2010 was $11.1 billion. Of this amount, the State's total general obligation debt was $8.6 billion which increased by $78 million during the fiscal year excluding items such as deferred amounts on refunding activities and net amortization of premiums and discounts. **(Table 4)**

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the State of Georgia's basic financial statements. The State's basic financial statements include the following components:



Government-Wide Financial Statements: Reporting the State as a Whole

The government-wide financial statements are designed to provide readers with a broad overview of the State of Georgia's finances, in a manner similar to the private sector. These financial statements provide both short-term and long-term information about the State's financial status, which assists in assessing the State's financial condition at the end of the fiscal year. The statements are prepared using the flow of economic resources measurement focus and the accrual basis of accounting, and report financial information about the entire government except fiduciary activities whose resources are not available to finance the government's programs.

The government-wide financial statements include two statements:

1) The *Statement of Net Assets* presents all of the State's assets and liabilities, with the difference between the two reported as "net assets." Over time, increases and decreases in net assets may serve as a useful indicator of the State's financial position.

2) The *Statement of Activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Therefore, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods (e.g., uncollected taxes, and earned but unused vacation leave). This statement also presents a comparison between direct expenses and related program revenues for each function of the State.

Both of the financial statements above report three activities:

1) ***Governmental Activities*** – Taxes and intergovernmental revenues principally fund the activities reported within this section. 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, conservation, and interest on long-term debt.

2) ***Business-Type Activities*** – These activities normally are intended to recover all or a significant portion of their costs through user fees and charges to external users of goods and services. The most significant business-type activities of the State include the operations of the Unemployment Compensation Fund (by the Georgia Department of Labor), the self-insured State Employees' Health Benefit Plan (by the Georgia Department of Community Health) and the programs of the Higher Education Fund (by the Board of Regents of the University System of Georgia and the Technical College System of Georgia).

3) ***Discretely Presented Component Units*** – Although these organizations are legally separate, the State is financially accountable for them. Financial information for these component units is reported on the government-wide statements separately from the financial information presented for the primary government. For the most part, these entities operate similar to private sector businesses and the business-type activities described above. The State's most significant discretely presented component units are Georgia Environmental Finance Authority, Georgia Housing and Finance Authority, Georgia Lottery Corporation, and Georgia Tech Foundation, Incorporated.

   The government-wide financial statements can be found immediately following this discussion and analysis.

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

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 fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The fund financial statements focus on individual parts of the State government (not on the State as a whole), reporting the State's operations in more detail than the government-wide statements. All of the funds of the State of Georgia can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds. These fund categories use different accounting approaches and should be interpreted differently.

1) ***Governmental Funds*** – Most of the basic services provided by the State are financed through governmental funds. These funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, the governmental fund financial statements focus on short-term inflows and outflows of spendable resources. This approach is known as the flow of current financial resources measurement focus and the modified accrual basis of accounting. These statements provide a detailed short-term view of the State's finances that assists in determining whether there will be adequate financial resources available to meet the current needs of the State.

   Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's short-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental fund and the government-wide financial statements. These reconciliations are presented on the page immediately following each governmental fund financial statement.

   The State of Georgia maintains five individual governmental funds. The State's two major governmental funds are the General Fund and the Georgia State Financing and Investment Commission (GSFIC), which is a capital projects fund. Information for each major fund is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances. Data for the remaining three governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The basic governmental fund financial statements can be found immediately following the government-wide financial statements.

2) ***Proprietary Funds*** – The State of Georgia maintains two different types of proprietary funds. When the State charges customers for the services it provides, whether to customers outside the State of Georgia reporting entity (*enterprise funds*) or to other organizations within the reporting entity (*internal service funds*), these services are reported in proprietary funds.

   The State of Georgia's proprietary funds include enterprise funds and internal service funds. The State's three major enterprise funds are the Higher Education Fund, the State Employees' Health Benefit Plan and the Unemployment Compensation Fund. Data for the remaining two enterprise funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor enterprise funds is provided in the form of *combining statements* elsewhere in this report. As there is only one nonmajor enterprise fund, combining statements are not required. The enterprise funds are the same as the business-type activities reported in the government-wide financial statements, but more detail is provided for each of these funds in the proprietary fund statements. Conversely, all seven internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds is provided in the form of *combining statements* elsewhere in this report. Since the internal service funds benefit both the governmental functions and the business-type functions, they have been proportionately allocated within the governmental activities and the business-type activities in the government-wide financial statements.

   The basic proprietary fund financial statements can be found immediately following the governmental fund financial statements.

3) ***Fiduciary Funds and Similar Component Units: The State as Trustee*** – These funds are used to account for resources held for the benefit of parties outside the state government. Fiduciary funds 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; instead, the State is responsible for using the fiduciary assets for the fiduciary fund's intended purposes. The accounting used for fiduciary funds is much like that used for proprietary funds.

   The State's fiduciary funds are the Pension and Other Employee Benefit Trust Funds (fourteen separate defined benefit retirement systems, three deferred compensation/defined contribution pension plans, three other postemployment benefit plans and one other employee benefit plan), the Investment Trust Funds (which account for the transactions, assets, liabilities and fund equity of external investment pools), Private-Purpose Trust Funds (which account for assets held by the government in a trustee capacity), and Agency Funds (which account for the assets held for distribution by the State as an agent for other governmental units, other organizations or individuals). Individual fund data for the fiduciary funds and similar component units can be found in the *combining statements* elsewhere in this report.

   The basic fiduciary fund financial statements can be found immediately following the proprietary fund financial statements.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found immediately following the fiduciary funds and similar component units' 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. This section includes: 1) other postemployment benefit plan funding information, and 2) a budgetary comparison schedule and accompanying reconciliation to the governmental fund (General Fund) financial statements.

Supplementary Information – Combining and Individual Fund Statements

The combining statements referred to earlier in connection with nonmajor governmental funds, internal service funds, fiduciary funds and nonmajor component units are presented following the required supplementary information. The total columns of these combining financial statements carry forward to the applicable fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Assets

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The State of Georgia's combined assets (governmental and business-type activities) exceeded liabilities by $19.8 billion at the end of fiscal year 2010.

Table 1 - Net Assets
As of June 30, 2010 and 2009 (in thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2010	2009	2010	2009	2010	2009
Current and Other						
Non-captial Assets	$ 9,785,713	$ 9,748,475	$ 2,447,656	$ 2,542,241	$ 12,233,369	$ 12,290,716
Net Capital Assets	20,716,313	20,040,216	8,079,628	7,423,128	28,795,941	27,463,344
Total Assets	30,502,026	29,788,691	10,527,284	9,965,369	41,029,310	39,754,060
Non-current Liabilities	11,452,978	11,289,439	4,197,653	3,010,329	15,650,631	14,299,768
Current Liabilities	4,541,486	4,647,601	1,025,882	906,665	5,567,368	5,554,266
Total Liabilities	15,994,464	15,937,040	5,223,535	3,916,994	21,217,999	19,854,034
Net Assets						
Invested in Capital Assets,						
Net of Related Debt	12,550,617	12,066,578	5,426,787	5,178,579	17,977,404	17,245,157
Restricted	2,605,116	2,254,051	423,325	1,022,564	3,028,441	3,276,615
Unrestricted	(648,171)	(468,978)	(546,363)	(152,768)	(1,194,534)	(621,746)
Total Net Assets	$ 14,507,562	$ 13,851,651	$ 5,303,749	$ 6,048,375	$ 19,811,311	$ 19,900,026

Investment in capital assets (e.g., land, buildings, machinery and equipment, infrastructure) less any related debt represents 91% of the State's net assets. The State uses capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the State's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Additional restricted net assets represent resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets, if any, could be used at the State's discretion to meet ongoing obligations to citizens and creditors, however, certain portions of unrestricted net assets have internal designations. Internally imposed designations of resources are not presented as restricted net assets.

Changes in Net Assets

The revenues and expenses information, shown in the table below, was derived from the Statement of Activities and reflects how the State's net assets changed during the fiscal year. The State of Georgia earned program revenues of $30.0 billion and general revenues of $14.8 billion, totaling $44.8 billion during fiscal year 2010. Expenses for the State during fiscal year 2010 were $45.0 billion.

The State's net assets (including restatement of the prior year balance) decreased by $259 million during the current fiscal year. The economic information presented later in this discussion and analysis provides insight into the conditions of the State that have caused this to occur.

Table 2 - Changes in Net Assets

For the Years Ended June 30, 2010 and 2009 (in thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2010	2009	2010	2009	2010	2009
Revenues:						
Program Revenues:						
Charges for Services	$ 2,408,738	$ 2,480,313	$ 2,442,184	$ 2,130,953	$ 4,850,922	$ 4,611,266
Operating Grants/Contributions	15,656,694	12,714,639	7,837,041	5,376,243	23,493,735	18,090,882
Capital Grants/Contributions	1,599,721	1,286,969	41,634	45,385	1,641,355	1,332,354
General Revenues:						
Taxes	14,641,029	15,246,400		-	14,641,029	15,246,400
Unrestricted Investment Income	993	63,074		76,060	993	139,134
Unclaimed Property	85,277	35,356		-	85,277	35,356
Other	44,183	112,681		-	44,183	112,681
Total Revenues	34,436,635	31,939,432	10,320,859	7,628,641	44,757,494	39,568,073
Expenses:						
General Government	1,467,147	1,904,893		-	1,467,147	1,904,893
Education	10,731,693	10,085,766		-	10,731,693	10,085,766
Health and Welfare	14,210,928	13,118,680		-	14,210,928	13,118,680
Transportation	1,752,933	1,786,808		-	1,752,933	1,786,808
Public Safety	1,834,315	1,972,187		-	1,834,315	1,972,187
Economic Development and Assistance	808,742	735,415		-	808,742	735,415
Culture and Recreatoin	287,860	273,401		-	287,860	273,401
Conservation	62,059	69,726		-	62,059	69,726
Interest and Other Charges on Long-Term Debt	446,520	466,077		-	446,520	466,077
Higher Education Fund		-	7,067,724	6,728,721	7,067,724	6,728,721
State Employees' Health Benefit Fund		-	2,298,354	2,211,087	2,298,354	2,211,087
Unemployment Compensation		-	4,011,802	2,435,344	4,011,802	2,435,344
State Road and Tollway Authortiy		-	26,174	17,835	26,174	17,835
Total Expenses	31,602,197	30,412,953	13,404,054	11,392,987	45,006,251	41,805,940
Increase (Decrease) in Net Assets BeforeTransfers And Special Items	2,834,438	1,526,479	(3,083,195)	(3,764,346)	(248,757)	(2,237,867)
Transfers and Special Items	(2,279,791)	(2,679,135)	2,269,701	2,679,135	(10,090)	-
Change in Net Assets	554,647	(1,152,656)	(813,494)	(1,085,211)	(258,847)	(2,237,867)
Net Assets, July 1 - Restated	13,952,915	15,004,307	6,117,243	7,133,586	20,070,158	22,137,893
Net Assets, June 30	$ 14,507,562	$ 13,851,651	$ 5,303,749	$ 6,048,375	$ 19,811,311	$ 19,900,026

Governmental Activities
Governmental activities increased the State's net assets (including restatement of the prior year balance) by $555 million. The increase in the net assets of governmental funds resulted primarily from governmental fund revenue increases related to operating grants and contributions.

Governmental revenues account for approximately 76.9 percent of total revenue. Approximately 42.5 percent of governmental revenue came from taxes and 50.1 percent resulted from grants and contributions. The State's expenses cover a range of services. The largest outlays were for education (34 percent), and health and welfare (45 percent) which combined, accounted for 79 percent of total governmental activity expenses and transfers. In fiscal year 2010, governmental activity expenses and transfers were funded from program revenues totaling $19.7 billion and from general revenues (the majority of which are taxes).

Business-Type Activities
Business-type activities decreased the State of Georgia's net assets (including restatement of the prior year balance) by $813 million. The increase is a result of transfers of general obligation bond proceeds from governmental activities for construction of additional facilities of various colleges and universities, as well as current year employees' health benefit plan contributions and interest revenue in excess of employees' health benefits expense. Grants and Contributions accounted for the majority of revenues and transfers and Higher Education (52.7 percent) and Unemployment Compensation Fund (29.9 percent) accounted for 82.6 percent of expense.

In fiscal year 2010, business-type activities expenses were funded 77.1 percent, or $10.3 billion, from program revenues and with remaining funds derived from tax revenues transferred from governmental activities to fund higher education.

American Recovery and Reinvestment Act (ARRA)

As of June 30, 2010, the State received ARRA funds totaling $3.8 billion. Of this amount, $1.2 billion, $725 million, and $799 million were attributable to State Fiscal Stabilization Fund, Medicaid Assistance Program, and Federal Highway Administration grants, respectively. The Medicaid revenues were the result of an increase in the reimbursement percentages as authorized by the ARRA. The State Fiscal Stabilization Fund grants were largely utilized to help stabilize budgets of local educational agencies and public institutions of higher education with the remainder for other general government programs in the Public Safety sector. Finally, the Federal Highway Administration grants were used to fund highway planning and construction.

Unemployment Compensation

The largest increase in expenditures from fiscal year 2009 to fiscal year 2010 was related to unemployment compensation which increased to $4 billion from $2.4 billion during fiscal year 2010. This increase is directly related to the state unemployment rate and the associated benefits being paid by the fund.

FINANCIAL ANALYSIS OF THE STATE'S INDIVIDUAL FUNDS

As noted earlier, the State uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of the State’s governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the State’s financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government’s net resources available for spending at the end of the fiscal year.

As of the end of fiscal year 2010, the State of Georgia’s governmental funds reported combined ending fund balances of $5.1 billion, an increase of $66 million in comparison with the prior fiscal year (after restatement of the prior year balance). Approximately 75 percent of this total amount ($3.8 billion) constitutes *reserved fund balance*. The remainder of fund balance is *unreserved* to indicate that it is not restricted for specific purposes.

The General Fund is the chief operating fund of the State. At the end of the current fiscal year the General Fund reflected a deficit unreserved, undesignated fund balance of $42 million, while total general fund balance amounted to $3.7 billion.

The Capital Projects Fund, in total, had a fund balance of $1.3 billion. The major capital projects fund is the Georgia State Financing and Investment Commission (GSFIC). The total net decrease in fund balance during the current year in the capital projects fund was $173 million.

Proprietary Funds

The State’s proprietary funds provide the same type of information found in the government-wide financial statements, but in greater detail.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The State of Georgia's investment in capital assets for its governmental and business-type activities as of June 30, 2010, was $28.8 billion. Investment in capital assets includes land, buildings and building improvements, improvements other than buildings, personal property (machinery and equipment), infrastructure and construction in progress. 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 of the notes to the financial statements of this report.

Table 3 - Capital Assets, Net of Accumulated Depreciation
As of June 30, 2010 and 2009 (in thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2010	2009	2010	2009	2010	2009
Buildings/Building Improvements	$ 2,053,808	$ 1,892,080	$ 5,078,125	$ 4,762,378	$ 7,131,933	$ 6,654,458
Improvements Not Buildings	32,630	36,676	196,115	190,100	228,745	226,776
Infrastructure	9,954,769	10,004,116	174,829	166,841	10,129,598	10,170,957
Intangibles Other than Software	71,610	-	-	-	71,610	-
Land	2,927,663	2,749,969	295,519	277,581	3,223,182	3,027,550
Library Collections	-	-	176,639	175,938	176,639	175,938
Machinery and Equipment	216,090	235,056	1,873,970	1,589,275	2,090,060	1,824,331
Software	79,660	57,544	8,832	587	88,492	58,131
Works of Art and Collections	1,334	1,781	45,187	40,493	46,521	42,274
Construction in Progress	5,378,749	5,062,994	230,412	219,935	5,609,161	5,282,929
Total	**$ 20,716,313**	**$ 20,040,216**	**$ 8,079,628**	**$ 7,423,128**	**$ 28,795,941**	**$ 27,463,344**

Debt Administration

At the end of the current fiscal year, the State had total bonded debt outstanding of $11 billion. As illustrated below, substantially this entire amount is backed by the full faith and credit of the government (*general obligation debt*). The remaining debt of $2.1 billion is revenue bonds secured solely by specified revenue sources.

Moody's Investors Service, Fitch Investors Service, L.P., and Standard and Poor's Corporation rated the State's most current general obligation bonds Aaa, AAA and AAA, respectively. Under the State's Constitution the highest aggregate annual debt service requirement (general obligation and guaranteed revenue debt) may not exceed 10 percent of the previous fiscal year's revenue collections.

Table 4 - Outstanding Bond Debt

As of June 30, 2010 and 2009 (thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2010	2009	2010	2009	2010	2009
General Obligation Bonds	$ 8,630,635	$ 8,552,130	$ -	$ -	$ 8,630,635	$ 8,552,130
GARVEE Revenue Bonds	1,416,850	1,529,405	-	-	1,416,850	1,529,405
Revenue Bonds	489,085	516,865	217,660	124,690	706,745	641,555
Less:						
Deferred Amounts On Refunding	(181,791)	(101,598)	(268)	(671)	(182,059)	(102,269)
Net Amoritization Premiums/(Discounts)	492,438	397,631	(3,578)	(2,283)	488,860	395,348
	$ 10,847,217	$ 10,894,433	$ 213,814	$ 121,736	$ 11,061,031	$ 11,016,169

Additional information on the State of Georgia's long-term debt can be found in Note 8 of the notes to the financial statements of this report.

BUDGETARY HIGHLIGHTS

Fiscal conditions have deteriorated for most States, including Georgia, during fiscal year 2010 and weak economic conditions are expected to continue into fiscal years 2011 and 2012. The Governor recommended and the General Assembly passed an original appropriation act for fiscal year 2010 which was subsequently amended. As a result of these unique circumstances, the Governor revised his revenue estimates after the amended appropriation act and ultimately withheld a percentage of the allotment of state funds included in the amended appropriation.

Actual Annual Net Revenue Collections deposited with the Office of Treasury and Fiscal Services (Treasury) declined by 9.25% in fiscal year 2010 to $15.2 billion from the initial estimate of $18.4 billion. During fiscal year 2010, the State implemented a number of measures to reduce or eliminate anticipated revenue reductions, including moratoriums on travel and purchasing, layoffs or furloughing personnel, and instituting across the board and targeted budgetary reductions.

Revenue Shortfall Reserve

As the State continues to address one of the worst economic downturns in recent history, the ending balance in the Revenue Shortfall Reserve (RSR) or "rainy day" fund, is a critical tool in helping to address budget shortfalls. After reaching a peak in fiscal year 2007 at $1.7 billion or 9.2% of net revenue collections, the State's RSR balance declined significantly in fiscal year 2009 to $271 million or 1.6% of net revenue collections. At June 30, 2010, $268 million or 1.8% of net revenue collections remained in the State's RSR, compared to a balance of $271 million at the end of fiscal year 2009. By statute, up to one percent of fiscal year 2010 revenue collections or $152 million may be appropriated from the RSR in fiscal year 2011 for K-12 needs. In addition, the Governor may release for appropriation in a subsequent year funds in excess of four percent of current year (fiscal year 2010) revenue collections. The Governor recommended and the General Assembly appropriated from the fiscal year 2008 Revenue Shortfall Reserve, $200 million and $259 million to support fiscal year 2009 and fiscal year 2010 operating activity, respectively. At current fiscal year 2010 balances, the remaining balance in the RSR is not sufficient to provide for additional appropriations to assist the State in addressing the fiscal stability of fiscal year 2011 or future years resulting from anticipated budget shortfalls. Accordingly, no such releases were available from the fiscal year 2010 balance.

In addition to the balance in the Revenue Shortfall Reserve, the State will continue to receive funds from the federal American Recovery and Reinvestment Act (ARRA) in fiscal year 2011. Although these revenues provide short-term fiscal relief, going forward, the State cannot rely on these sources of funds to the degree it did in the previous fiscal years and will need to identify new sources of revenue or additional reductions to spending in order to maintain fiscal balance.

The Appropriations Act for fiscal year 2011 was based on a budgeted revenue estimate of approximately $16.5 billion. To address an anticipated further decrease in estimated revenues, the Governor called for agency allotment reductions of 4% beginning in July 2010.

ECONOMIC FACTORS

The national and local economies continued in a severe recession during the state's 2010 fiscal year. The National Bureau of Economic Research dated the start of the national recession in December 2007. The recession was relatively mild, however, through the fall of 2008. Financial markets froze following the bankruptcy of Lehman Brothers, a major financial institution in September 2008. This precipitated a sharp contraction in economies worldwide.

The downturn has had a severe impact on Georgia's economy. Total General Fund revenues in fiscal year 2010 fell by 10.5% from fiscal year 2009 and the downturn has continued into fiscal year 2010. However, through

November 2010, tax revenues, as reported by the Georgia Department of Revenue are up 7.4% year to date for fiscal year 2010.

Other measures of economic activity in Georgia also indicate that the recession has had a significant impact. The U.S. Bureau of Labor Statistics reported that Georgia's unemployment rate in November 2010 was 10.1% with 469, 702 workers unemployed and seeking work. This rate is equal to the US unemployment rate. The Georgia unemployment rate peaked at 10.5% in February 2010; this is the highest rate of unemployment reported for the state.

The U.S. Bureau of Labor Statistics reported that total nonfarm employment for the Atlanta-Sandy Springs-Marietta Metropolitan Statistical Area (MSA) stood at 2,268,500 in August 2010, essentially unchanged from one year ago. While Atlanta exhibited no growth over the course of the year, nationally, employment was up 0.2 percent from August 2009.

Personal income is another important economic indicator for states. For Georgia, personal income rose by 3.1% in the third quarter of 2010 compared to the third quarter of 2009. For the US, personal income rose by 3.6% over the same period.

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, Atlanta, Georgia 30334-9010.


STATE OF GEORGIA
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BASIC FINANCIAL STATEMENTS


STATE OF GEORGIA
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State of Georgia

Statement of Net Assets
June 30, 2010
(dollars in thousands)

	Primary Government			
	Governmental Activities	Business-Type Activities	Total	Component Units
Assets				
Cash and Cash Equivalents	$ 1,477,885	$ 1,209,579	$ 2,687,464	$ 852,932
Investments	3,505,159	298,030	3,803,189	2,701,235
Receivables (Net)	4,303,631	825,346	5,128,977	4,149,692
Due from Primary Government	-	-	-	2,168
Due from Component Units	63,331	106,312	169,643	-
Internal Balances	209,101	(209,101)	-	-
Inventories	55,041	41,188	96,229	19,405
Prepaid Items	76,810	70,518	147,328	22,399
Other Assets	44,211	14,308	58,519	181,988
Deferred Capital Outflow	-	-	-	23,554
Restricted Assets				
Cash and Cash Equivalents	33,883	13,341	47,224	453,078
Investments	16,661	78,135	94,796	479,564
Receivables (Net)	-	-	-	629,040
Capital Assets				
Nondepreciable	8,379,356	566,042	8,945,398	678,438
Depreciable (Net of Accumulated Depreciation)	12,336,957	7,513,586	19,850,543	1,589,633
Total Assets	30,502,026	10,527,284	41,029,310	11,783,126
Liabilities				
Accounts Payable and Accrued Liabilities	2,704,883	230,537	2,935,420	285,773
Due to Primary Government	-	-	-	169,643
Due to Component Units	58	2,110	2,168	-
Benefits Payable	750,139	252,769	1,002,908	-
Accrued Interest Payable	155,090	853	155,943	7,042
Contracts Payable	145,986	15,893	161,879	23,609
Funds Held for Others	135,554	59,833	195,387	1,319
Unearned Revenue	121,717	423,701	545,418	609,633
Claims and Judgments Payable	444,746	-	444,746	8,252
Other Liabilities	83,313	40,186	123,499	128,313
Noncurrent Liabilities:				
Due within one year	1,053,401	189,357	1,242,758	238,552
Due in more than one year	10,399,577	4,008,296	14,407,873	4,181,058
Total Liabilities	15,994,464	5,223,535	21,217,999	5,653,194
Net Assets				
Invested in Capital Assets, Net of Related Debt	12,550,617	5,426,787	17,977,404	1,172,260
Restricted for:				
Bond Covenants/Debt Service	-	-	-	29,217
Construction	-	-	-	14,241
Guaranteed Revenue Debt Common Reserve Fund	71,299	-	71,299	-
Loan and Grant Programs	-	-	-	39,458
Lottery for Education	883,333	-	883,333	-
Motor Fuel Tax Funds	1,366,443	-	1,366,443	-
Permanent Trusts:				
Nonexpendable	-	133,531	133,531	986,449
Expendable	-	257,613	257,613	829,067
Other Purposes	284,041	32,181	316,222	72
Unrestricted	(648,171)	(546,363)	(1,194,534)	3,059,168
Total Net Assets	$ 14,507,562	$ 5,303,749	$ 19,811,311	$ 6,129,932

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, 2010
(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	$ 1,467,147	$ 1,763,847	$ 258,713	$ 96,198
Education	10,731,693	7,505	3,199,737	-
Health and Welfare	14,210,928	245,953	11,009,389	2,930
Transportation	1,752,933	26,266	120,018	1,449,921
Public Safety	1,834,315	135,736	319,652	12,052
Economic Development and Assistance	808,742	89,451	658,100	1,782
Culture and Recreation	287,860	135,457	75,555	36,660
Conservation	62,059	4,523	15,530	178
Interest and Other Charges on Long-Term Debt	446,520	-	-	-
Total Governmental Activities	31,602,197	2,408,738	15,656,694	1,599,721
Business-Type Activities:				
Higher Education Fund	7,067,724	2,408,042	2,586,520	39,663
State Employees' Health Benefit Plan	2,298,354	-	1,997,523	-
Unemployment Compensation Fund	4,011,802	-	3,252,776	-
Nonmajor Enterprise	26,174	34,142	222	1,971
Total Business-Type Activities	13,404,054	2,442,184	7,837,041	41,634
Total Primary Government	$ 45,006,251	$ 4,850,922	$ 23,493,735	$ 1,641,355
Component Units				
Georgia Environmental Finance Authority	$ 132,744	$ 59,935	$ 60,030	$ 118,998
Georgia Housing and Finance Authority	198,386	13,053	198,285	-
Georgia Lottery Corporation	3,393,035	3,392,442	10,337	-
Georgia Tech Foundation, Incorporated	117,459	15,647	156,375	-
Nonmajor Component Units	2,142,322	1,142,714	993,055	26,234
Total Component Units	$ 5,983,946	$ 4,623,791	$ 1,418,082	$ 145,232

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
$ 651,611		$ 651,611	
(7,524,451)		(7,524,451)	
(2,952,656)		(2,952,656)	
(156,728)		(156,728)	
(1,366,875)		(1,366,875)	
(59,409)		(59,409)	
(40,188)		(40,188)	
(41,828)		(41,828)	
(446,520)		(446,520)	
(11,937,044)		(11,937,044)	
	$ (2,033,499)	(2,033,499)	
	(300,831)	(300,831)	
	(759,026)	(759,026)	
	10,161	10,161	
	(3,083,195)	(3,083,195)	
(11,937,044)	(3,083,195)	(15,020,239)	
			$ 106,219
			12,952
			9,744
			54,563
			19,681
			203,159
7,109,984	-	7,109,984	-
5,196,117	-	5,196,117	-
2,334,928	-	2,334,928	23,960
993	-	993	-
85,277	-	85,277	-
44,183	-	44,183	-
-	-	-	43,358
-	-	-	73,132
(10,090)	-	(10,090)	-
(2,269,701)	2,269,701	-	-
12,491,691	2,269,701	14,761,392	140,450
554,647	(813,494)	(258,847)	343,609
13,952,915	6,117,243	20,070,158	5,786,323
$ 14,507,562	$ 5,303,749	$ 19,811,311	$ 6,129,932

State of Georgia

Balance Sheet
Governmental Funds
June 30, 2010
(dollars in thousands)

	General Fund	Georgia State Financing and Investment Commission	Nonmajor Funds	Total
Assets				
Cash and Cash Equivalents	$ 1,236,055	$ 143,938	$ 31,995	$ 1,411,988
Investments	2,046,866	1,293,816	21,032	3,361,714
Receivables, Net	4,257,372	-	991	4,258,363
Due from Other Funds	42	-	2,946	2,988
Due from Component Units	63,178	-	-	63,178
Inventories	42,846	-	-	42,846
Restricted Assets				
Cash and Cash Equivalents	17,354	-	16,529	33,883
Investments	13,503	-	3,158	16,661
Other Assets	92,761	-	32	92,793
Total Assets	$ 7,769,977	$ 1,437,754	$ 76,683	$ 9,284,414
Liabilities and Fund Balances				
Liabilities:				
Accounts Payable and Other Accruals	$ 2,559,591	$ 46,530	$ 120	$ 2,606,241
Due to Other Funds	280,323	-	-	280,323
Due to Component Units	58	-	-	58
Benefits Payable	750,139	-	-	750,139
Contracts Payable	120,220	25,766	-	145,986
Undistributed Local Government Sales Tax	50,000	-	-	50,000
Funds Held for Others	133,646	-	-	133,646
Deferred Revenue	121,580	-	-	121,580
Other Liabilities	58,946	42,106	130	101,182
Total Liabilities	4,074,503	114,402	250	4,189,155
Fund Balances:				
Reserved	3,737,311	-	43,114	3,780,425
Unreserved				
Undesignated, Reported in				
General Fund	(41,837)	-	-	(41,837)
Special Revenue Funds	-	-	33,319	33,319
Capital Projects Funds	-	1,323,352	-	1,323,352
Total Fund Balances	3,695,474	1,323,352	76,433	5,095,259
Total Liabilities and Fund Balances	$ 7,769,977	$ 1,437,754	$ 76,683	$ 9,284,414

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

State of Georgia

Reconciliation of Fund Balances
To the Statement of Net Assets
June 30, 2010
(dollars in thousands)

Total Fund Balances - Governmental Funds (from previous page)			$	5,095,259
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	$	2,906,179		
Buildings and Building Improvements		3,048,301		
Improvements Other Than Buildings		69,318		
Equipment		784,068		
Infrastructure		21,195,410		
Construction in Progress		5,378,749		
Works of Art		94		
Intangibles		71,610		
Software		159,701		
Accumulated Depreciation		(13,190,837)		20,422,593
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.				28,713
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.				561,578
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		(8,630,635)		
Premiums		(388,885)		
Deferred Amount on Refunding		181,791		
Accrued Interest Payable		(142,113)		
Revenue Bonds		(1,905,935)		
Premiums		(103,553)		
Accrued Interest Payable		(12,977)		
Capital Leases		(242,430)		
Compensated Absences		(314,873)		
Long-Term Notes		(27,614)		
Arbitrage Rebate		(13,357)		(11,600,581)
Total Net Assets - Governmental Activities			$	14,507,562

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

State of Georgia

Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2010
(dollars in thousands)

	General Fund	Financing and Investment Commission	Nonmajor Funds	Total
Revenues:				
Taxes	$ 14,641,029	$ -	$ -	$ 14,641,029
Licenses and Permits	507,764	-	-	507,764
Intergovernmental - Federal	16,456,059	-	-	16,456,059
Intergovernmental - Other	569,106	-	73	569,179
Sales and Services	490,856	-	98	490,954
Fines and Forfeits	300,032	-	-	300,032
Interest and Other Investment Income	7,510	33,226	799	41,535
Unclaimed Property	85,277	-	-	85,277
Lottery Proceeds	883,882	-	-	883,882
Nursing Home Provider Fees	122,047	-	-	122,047
Other	95,841	-	552	96,393
Total Revenues	34,159,403	33,226	1,522	34,194,151
Expenditures:				
Current:				
General Government	857,648	2,910	-	860,558
Education	10,719,216	-	-	10,719,216
Health and Welfare	14,211,763	-	-	14,211,763
Transportation	2,122,390	-	5,201	2,127,591
Public Safety	1,895,659	-	-	1,895,659
Economic Development and Assistance	787,019	-	242	787,261
Culture and Recreation	275,746	-	-	275,746
Conservation	62,430	-	-	62,430
Capital Outlay	-	500,166	-	500,166
Debt Service				
Principal	-	-	804,560	804,560
Interest	34	-	485,161	485,195
Accrued Interest on Bonds Retired in Advance	-	-	375	375
Discount on Bonds Retired in Advance	-	-	(4,301)	(4,301)
Other Debt Service Expenditures	-	8,203	37,926	46,129
Intergovernmental	-	220,118	-	220,118
Total Expenditures	30,931,905	731,397	1,329,164	32,992,466
Excess (Deficiency) of Revenues Over (Under) Expenditures	3,227,498	(698,171)	(1,327,642)	1,201,685
Other Financing Sources (Uses):				
Debt Issuance - General Obligation Bonds	-	793,855	-	793,855
Debt Issuance - Refunding Bonds	-	-	640,825	640,825
Debt Issuance - General Obligation Bonds - Premium	-	25,206	-	25,206
Debt Issuance - Refunding Bonds - Premium	-	-	112,131	112,131
Payment to Refunded Bond Escrow Agent	-	-	(750,209)	(750,209)
Capital Leases	6,201	-	-	6,201
Transfers In	630,134	1,639	1,327,757	1,959,530
Transfers Out	(3,264,663)	(295,196)	(363,281)	(3,923,140)
Net Other Financing Sources (Uses)	(2,628,328)	525,504	967,223	(1,135,601)
Net Change in Fund Balances	599,170	(172,667)	(360,419)	66,084
Fund Balances, July 1 (Restated - Note 3)	3,096,304	1,496,019	436,852	5,029,175
Fund Balances, June 30	$ 3,695,474	$ 1,323,352	$ 76,433	$ 5,095,259

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

State of Georgia

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, 2010
(dollars in thousands)

Net Change in Fund Balances - Governmental Funds (from previous page)		$ 66,084
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.	$ 1,461,960	
Depreciation expense	(1,106,843)	355,117
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.		52,703
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.		(776,865)
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.		(6,201)
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	698,360	
Revenue Bonds	140,335	
Notes	84	
Capital Leases	25,948	864,727
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.		(14,823)
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	16,656	
Accrued Interest on Bonds Payable	(3,645)	
Arbitrage Rebate	11,808	
Amortization of Deferred Amount on Refunding	80,193	
Amortization of Bond Premiums	42,530	
Allocation of Deferred Bond Issuance Costs	(133,637)	13,905
Change in Net Assets - Governmental Activities		$ 554,647

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

State of Georgia

Statement of Net Assets
Proprietary Funds
June 30, 2010
(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	$ 964,785	$ 24,546	$ 202,360	$ 17,888	$ 1,209,579	$ 65,898
Investments	212,898	14,256	-	10,347	237,501	55,617
Accounts Receivable (Net)	369,353	39,459	166,029	583	575,424	42,618
Due From Other Funds	-	-	-	-	-	352,078
Due From Component Units	106,312	-	-	-	106,312	154
Notes Receivable	399	-	-	2,005	2,404	-
Other Assets	111,134	-	-	677	111,811	14,346
Restricted Assets						
Investments	-	-	-	18,019	18,019	-
Noncurrent Assets:						
Investments	60,529	-	-	-	60,529	87,825
Notes Receivable	48,818	-	-	198,700	247,518	-
Other Noncurrent Assets	-	-	-	14,203	14,203	-
Restricted Assets						
Cash and Cash Equivalents	13,292	-	-	49	13,341	-
Investments	52,606	-	-	7,510	60,116	-
Non-Depreciable Capital Assets	563,262	-	-	2,780	566,042	22,723
Depreciable Capital Assets, net	7,512,284	-	-	1,302	7,513,586	270,996
Total Assets	10,015,672	78,261	368,389	274,063	10,736,385	912,255
Liabilities						
Current Liabilities:						
Accounts Payable and Other Accruals	188,858	4,455	4,168	867	198,348	30,766
Due to Other Funds	71,719	22,544	-	2,946	97,209	66
Due to Component Units	2,110	-	-	-	2,110	-
Benefits Payable	15,654	215,454	21,661	-	252,769	-
Grants Payable	9,645	-	-	-	9,645	-
Unearned Revenue	314,591	69,582	28,670	-	412,843	137
Claims and Judgments Payable	-	-	-	-	-	444,746
Compensated Absences Payable - Current	119,800	150	-	105	120,055	3,695
Other Current Liabilities	174,014	-	-	10,726	184,740	1,908
Current Liabilities Payable from Restricted Assets	-	-	-	3,769	3,769	-
Noncurrent Liabilities:						
Compensated Absences Payable	90,561	133	-	107	90,801	3,792
Capital Leases/Installment Purchases Payable	2,589,830	-	-	-	2,589,830	-
Revenue Bonds Payable	-	-	-	203,538	203,538	-
Other Postemployment Benefit Obligation	699,938	-	-	-	699,938	-
Other Noncurrent Liabilities	16,605	-	416,000	-	432,605	-
Total Liabilities	4,293,325	312,318	470,499	222,058	5,298,200	485,110
Net Assets						
Invested in Capital Assets, Net of Related Debt	5,422,705	-	-	4,082	5,426,787	293,719
Restricted for:						
Capital Projects	32,181	-	-	-	32,181	-
Permanent Trusts:						
Nonexpendable	133,531	-	-	-	133,531	-
Expendable	257,613	-	-	-	257,613	-
Surplus Property Working Capital	-	-	-	-	-	320
Unrestricted	(123,683)	(234,057)	(102,110)	47,923	(411,927)	133,106
Total Net Assets	$ 5,722,347	$ (234,057)	$ (102,110)	$ 52,005	5,438,185	$ 427,145
Adjustment to reflect the consolidation of Internal Service Fund activities related to Enterprise Funds.					(134,436)	
Net Assets of Business-Type Activities					$ 5,303,749	

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

State of Georgia

Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
For the Fiscal Year Ended June 30, 2010
(dollars in thousands)

	Business-Type Activities - Enterprise Funds					Governmental
	Higher Education Fund	State Employees' Health Benefit Plan	Unemployment Compensation Fund	Nonmajor Funds	Total	Activities - Internal Service Funds
Operating Revenues:						
Operating Grants and Contributions/Premiums	$ 1,289,368	$ 1,997,296	$ 3,246,632	$ -	$ 6,533,296	$ 195,384
Rents and Royalties	5,413	-	-	49	5,462	55,787
Sales and Services	862,093	-	-	34,093	896,186	306,621
Tuition and Fees	1,888,462	-	-	-	1,888,462	-
Less: Scholarship Allowances	(449,769)	-	-	-	(449,769)	-
Other	101,844	-	-	-	101,844	1,081
Total Operating Revenues	3,697,411	1,997,296	3,246,632	34,142	8,975,481	558,873
Operating Expenses:						
Personal Services	4,265,783	5,078	-	2,911	4,273,772	56,726
Services and Supplies	1,735,661	111,568	-	5,044	1,852,273	340,409
Scholarships and Fellowships	500,018	-	-	-	500,018	-
Benefits	-	2,181,708	4,011,801	-	6,193,509	-
Claims and Judgments	-	-	-	-	-	169,540
Depreciation	391,056	-	-	787	391,843	20,765
Amortization	-	-	-	5,908	5,908	-
Total Operating Expenses	6,892,518	2,298,354	4,011,801	14,650	13,217,323	587,440
Operating Income (Loss)	(3,195,107)	(301,058)	(765,169)	19,492	(4,241,842)	(28,567)
Nonoperating Revenues (Expenses):						
Grants and Contributions	1,267,952	-	-	-	1,267,952	-
Interest and Other Investment Income	29,200	227	6,144	222	35,793	9,783
Interest Expense	(129,642)	-	-	(11,523)	(141,165)	-
Other	(41,692)	-	-	-	(41,692)	18,462
Total Nonoperating Revenues (Expenses)	1,125,818	227	6,144	(11,301)	1,120,888	28,245
Income (Loss) Before Contributions, Special Items and Transfers	(2,069,289)	(300,831)	(759,025)	8,191	(3,120,954)	(322)
Capital Contributions	319,003	-	-	1,971	320,974	20,833
Special Items	-	-	-	-	-	(10,090)
Transfers:						
Transfers In	1,966,051	33,300	-	-	1,999,351	6,423
Transfers Out	(5,150)	-	(2,375)	(1,482)	(9,007)	(35,523)
Net Transfers	1,960,901	33,300	(2,375)	(1,482)	1,990,344	(29,100)
Change in Net Assets	210,615	(267,531)	(761,400)	8,680	(809,636)	(18,679)
Net Assets, July 1 (Restated - Note 3)	5,511,732	33,474	659,290	43,325		445,824
Net Assets, June 30	$ 5,722,347	$ (234,057)	$ (102,110)	$ 52,005		$ 427,145
Adjustment to reflect the consolidation of Internal Service Fund activities related to Enterprise Funds.					(3,858)	
					$ (813,494)	

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

State of Georgia

Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended June 30, 2010
(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	$ 848,623	$ -	$ -	$ 21,740	$ 870,363	$ 362,760
Cash Received from Grants and Required Contributions/Premiums	1,265,709	2,065,922	3,236,422	10,502	6,578,555	101,144
Cash Received from Tuition and Fees	1,469,896	-	-	-	1,469,896	-
Cash Paid to Vendors	(2,551,636)	(110,242)	-	(4,420)	(2,666,298)	(347,425)
Cash Paid to Employees	(3,115,453)	(5,098)	-	(2,868)	(3,123,419)	(56,535)
Cash Paid for Benefits	-	(2,178,411)	(4,019,783)	-	(6,198,194)	-
Cash Paid for Claims and Judgments	-	-	-	-	-	(128,645)
Cash Paid for Scholarships, Fellowships and Loans	(509,810)	-	-	-	(509,810)	-
Other Operating Items (Net)	86,562	-	-	-	86,562	681
Net Cash Provided by (Used in) Operating Activities	(2,506,109)	(227,829)	(783,361)	24,954	(3,492,345)	(68,020)
Cash Flows from Noncapital Financing Activities:						
Payment to Lessee on Direct Financing Lease	-	-	-	(98,247)	(98,247)	-
Proceeds from Debt	-	-	416,000	99,499	515,499	-
Bond Issuance Costs				(1,252)	(1,252)	-
Interest Paid on Debt	-	-	-	(10,502)	(10,502)	-
Transfers from Other Funds	1,965,807	33,300		-	1,999,107	6,423
Transfers to Other Funds	(3,806)	-	(2,375)	(1,482)	(7,663)	(35,523)
Other Noncapital Items (Net)	1,198,359	-		2,808	1,201,167	19,839
Net Cash Provided by (Used in) Noncapital Financing Activities	3,160,360	33,300	413,625	(9,176)	3,598,109	(9,261)
Cash Flows from Capital and Related Financing Activities:						
Capital Contributions	126,027	-	-	1,971	127,998	293
Proceeds from Sale of Capital Assets	151	-	-	-	151	140
Proceeds from Capital Debt	(59,024)	-	-		(59,024)	-
Acquisition and Construction of Capital Assets	(317,956)	-	-	(2,691)	(320,647)	(2,712)
Principal Paid on Capital Debt	(52,782)	-	-	(7,880)	(60,662)	-
Interest Paid on Capital Debt	(123,590)	-	-	(1,001)	(124,591)	-
Net Cash Used in Capital and Related Financing Activities	(427,174)	-	-	(9,601)	(436,775)	(2,279)
Cash Flows from Investing Activities:						
Sale (Purchase) of Investments (Net)	77,313	70,339	-	(2,296)	145,356	51,210
Interest and Dividends Received	15,222	227	6,144	222	21,815	8,091
Net Cash Provided by (Used in) Investing Activities	92,535	70,566	6,144	(2,074)	167,171	59,301
Net Increase (Decrease) in Cash and Cash Equivalents	319,612	(123,963)	(363,592)	4,103	(163,840)	(20,259)
Cash and Cash Equivalents, July 1	658,465	148,509	565,952	13,834	1,386,760	86,157
Cash and Cash Equivalents, June 30	$ 978,077	$ 24,546	$ 202,360	$ 17,937	$ 1,222,920	$ 65,898

(continued)

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

State of Georgia

Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended June 30, 2010
(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)	$ (3,195,107)	$ (301,058)	$ (765,169)	$ 19,492	$ (4,241,842)	$ (28,567)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities:						
Depreciation/Amortization Expense	391,056	-	-	6,695	397,751	20,765
Other	-	-	-	(2,603)	(2,603)	-
Changes in Assets and Liabilities:						
Decrease (Increase) in Accounts Receivable	(74,015)	15,995	(15,965)	(260)	(74,245)	(843)
Decrease in Due From Other Funds	-	4,864	-	577	5,441	3,989
Decrease in Due from Component Units	-	-	-	-	-	162
Decrease (Increase) in Other Assets	(20,714)	-	-	597	(20,117)	(99)
Increase in Notes Receivable	(417)	-	-	-	(417)	-
Increase (Decrease) in Accounts Payable and Other Accruals	14,212	1,312	(3,253)	-	12,271	(6,751)
Increase (Decrease) in Due to Other Funds	-	22,545	(1,336)	174	21,383	(107)
Increase (Decrease) in Benefits Payable	783	3,296	(7,982)	-	(3,903)	-
Increase in Unearned Revenue	48,822	25,222	10,344	-	84,388	86
Decrease in Claims and Judgments Payable	-	-	-	-	-	(57,469)
Increase (Decrease) in Compensated Absences Payable	9,149	(5)	-	43	9,187	139
Increase in Other Postemployment Benefit Obligation	304,463	-	-	-	304,463	-
Increase (Decrease) in Other Liabilities	15,659	-	-	25	15,684	675
Increase in Current Liabilities Payable from Restricted Assets	-	-	-	214	214	-
Net Cash Provided by (Used) in Operating Activities	$ (2,506,109)	$ (227,829)	$ (783,361)	$ 24,954	$ (3,492,345)	$ (68,020)
Noncash Investing, Capital, and Financing Activities:						
Gift of Capital Assets Reducing Proceeds of Capital Grants and Gifts	$ (19,551)	$ -	$ -	$ -	$ (19,551)	$ -
Gifts other than Capital Assets Reducing Proceeds of Grants and Gifts for Other than Capital Assets	(1)	-	-	-	(1)	-
Donation of Capital Assets	-	-	-	-	-	20,539
Change in Accrued Interest Payable Affecting Interest Paid	(3,295)	-	-	-	(3,295)	-
Fixed Assets Acquired by Incurring Capital Lease Obligations	465,107	-	-	-	465,107	-
Change in Fair Value of Investments Recognized as a Component of Interest Income	13,918	-	-	-	13,918	1,693
Special Item - Equipment-Capital Asset Transfer	17	-	-	-	17	-
Reduction in Capital Lease Obligation	2,586	-	-	-	2,586	-
Loss on Disposal of Capital Assets Reducing Proceeds from Sale of Capital Assets	852	-	-	-	852	-
Other	63	-	-	-	63	-
Total Noncash Investing, Capital and Financing Activites	$ 459,696	$ -	$ -	$ -	$ 459,696	$ 22,232

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

State of Georgia

Statement of Fiduciary Net Assets

Fiduciary Funds

June 30, 2010

(dollars in thousands)

	Pension and Other Employee Benefits Trust	Investment Trust	Private Purpose Trust	Agency	Total
Assets					
Cash and Cash Equivalents	$ 38,410	$ 2,870,421	$ 26,600	$ 99,588	$ 3,035,019
Receivables					
Interest and Dividends	223,725	25	-	-	223,750
Due from Brokers for Securities Sold	61,860	-	-	-	61,860
Other	156,263	-	-	479	156,742
Due from Other Funds	23,732	-	-	-	23,732
Investments, at Fair Value					
Certificates of Deposit	-	-	-	2,899	2,899
Investment Accounts	1,318	-	-	-	1,318
Pooled Investments	12,734,472	2,120,512	18,299	19,485	14,892,768
Mutual Funds	1,122,489	-	-	4,681	1,127,170
Repurchase Agreements	1,390,884	-	-	-	1,390,884
Municipal, U. S. and Foreign					
ties anc Government Obligations	11,310,280	-	-	43,579	11,353,859
Corporate Bonds/Notes/Debentures	5,169,494	-	-	-	5,169,494
Stocks	28,536,123	-	-	-	28,536,123
Asset-Backed Securities	35,377	-	-	-	35,377
Mortgage Investments	54,511	-	-	-	54,511
Real Estate Investment Trusts	17,347	-	-	-	17,347
Capital Assets					
Land	2,071	-	-	-	2,071
Buildings	7,695	-	876	-	8,571
Software	29,325	-	-	-	29,325
Machinery and Equipment	3,685	-	103	-	3,788
Accumulated Depreciation	(30,073)	-	(279)	-	(30,352)
Other Assets	114	-	-	39,648	39,762
Total Assets	60,889,102	4,990,958	45,599	210,359	66,136,018
Liabilities					
Accounts Payable and Other Accruals	55,200	-	32	7,986	63,218
Due to Other Funds	1,200	-	-	-	1,200
Due to Brokers for Securities Purchased	97,130	-	-	-	97,130
Salaries/Withholdings Payable	164	-	-	-	164
Benefits Payable	6,757	-	-	-	6,757
Funds Held for Others	-	-	-	202,322	202,322
Unearned Revenue	8,440	-	-	-	8,440
Compensated Absences Payable	65	-	213	-	278
Other Liabilities	-	-	773	51	824
Total Liabilities	168,956	-	1,018	210,359	380,333
Net Assets					
Held in Trust for:					
Pension Benefits	59,883,199	-	-	-	59,883,199
Other Postemployment Benefits	680,815	-	-	-	680,815
Other Employee Benefits	156,132	-	-	-	156,132
Pool Participants	-	4,990,958	-	-	4,990,958
Other Purposes	-	-	44,581	-	44,581
Total Net Assets	$ 60,720,146	$ 4,990,958	$ 44,581	$ -	$ 65,755,685

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

State of Georgia

Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Fiscal Year Ended June 30, 2010
(dollars in thousands)

	Pension and Other Employee Benefits Trust	Investment Trust	Private Purpose Trust	Total
Additions:				
Contributions/Assessments				
Employer	$ 1,746,146	$ -	$ -	$ 1,746,146
Plan Members/Participants	859,566	-	153,912	1,013,478
Other Contributions				
Fines and Bond Forfeitures	21,371	-	-	21,371
Insurance Company Premium Taxes	25,328	-	-	25,328
Insurance Premiums	7,655	-	-	7,655
Other Fees	4,922	-	-	4,922
Interest and Other Investment Income				
Dividends and Interest	1,629,369	20,882	243	1,650,494
Net Appreciation (Depreciation) in Investments Reported at Fair Value	4,638,202	561	-	4,638,763
Less: Investment Expense	(37,614)	(1,500)	-	(39,114)
Pool Participant Deposits	-	8,671,285	-	8,671,285
Other				
Transfers from Other Funds	2,366	-	-	2,366
Miscellaneous	1,525	-	-	1,525
Total Additions	8,898,836	8,691,228	154,155	17,744,219
Deductions:				
General and Administrative Expenses	79,022	-	3,135	82,157
Benefits	4,841,005	-	125,219	4,966,224
Pool Participant Withdrawals	-	10,266,320	-	10,266,320
Refunds	72,019	-	-	72,019
Total Deductions	4,992,046	10,266,320	128,354	15,386,720
Change in Net Assets Held in Trust for:				
Pension and Other Employee Benefits	3,906,790			3,906,790
Pool Participants		(1,575,092)		(1,575,092)
Other Purposes			25,801	25,801
Net Assets, July 1 (Restated - Note 3)	56,813,356	6,566,050	18,780	63,398,186
Net Assets, June 30	$ 60,720,146	$ 4,990,958	$ 44,581	$ 65,755,685

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

State of Georgia

Statement of Net Assets
Component Units
June 30, 2010
(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	$ 184,893	$ 42,852	$ 6,919	$ 3,606	$ 614,662	$ 852,932
Investments	227,045	10,761	-	-	210,196	448,002
Receivables						
Accounts (Net)	29,321	-	122,165	37,373	219,180	408,039
Taxes	-	-	-	-	454	454
Interest and Dividends	15,821	660	-	-	2,821	19,302
Notes and Loans	-	-	-	1,080	306,818	307,898
Due from Primary Government	-	-	-	-	2,168	2,168
Due from Component Units	-	-	-	-	866	866
Intergovernmental Receivables	15,126	-	-	-	14,028	29,154
Other Current Assets	20	20,706	3,385	-	99,292	123,403
Noncurrent Assets:						
Investments	-	98,377	-	1,128,409	1,026,447	2,253,233
Receivables (Net)						
Notes and Loans	1,458,461	406,399	-	-	3,151	1,868,011
Other	-	-	-	207,809	1,309,025	1,516,834
Due from Component Units	-	-	-	-	86,157	86,157
Restricted Assets						
Cash and Cash Equivalents	-	239,049	5,412	-	208,617	453,078
Investments	-	141,559	306,635	-	31,370	479,564
Receivables (Net)						
Notes and Loans	-	621,193	-	-	-	621,193
Interest and Dividends	-	7,763	-	-	-	7,763
Other	-	-	-	-	84	84
Deferred Charges	-	14,393	-	-	-	14,393
Non-depreciable capital assets	-	800	-	2,553	675,085	678,438
Depreciable capital assets, net	43	3,037	4,994	33,898	1,547,661	1,589,633
Deferred Capital Outflow	-	-	-	-	23,554	23,554
Other Noncurrent Assets	161	-	-	23,701	62,134	85,996
Total Assets	1,930,891	1,607,549	449,510	1,438,429	6,443,770	11,870,149

(continued)

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

State of Georgia

Statement of Net Assets
Component Units
June 30, 2010
(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	16,628	34,155	70,766	5,854	171,595	298,998
Due to Primary Government	-	2	62,282	-	107,359	169,643
Due to Component Units	-	-	-	361	505	866
Funds Held for Others	-	-	-	-	1,319	1,319
Unearned Revenue	51,352	2,322	-	3,229	105,132	162,035
Notes and Loans Payable - Current	-	-	-	26,450	74,488	100,938
Revenue Bonds Payable - Current	6,035	24,215	-	6,990	54,243	91,483
Other Current Liabilities	128	51,654	13,134	2,377	62,076	129,369
Current Liabilities Payable from Restricted Assets:						
Accrued Interest Payable	-	-	-	-	3,677	3,677
Revenue Bonds Payable - Current	-	-	-	-	8,660	8,660
Other	-	-	5,401	-	8,348	13,749
Noncurrent Liabilities:						
Unearned Revenue	-	406,231	-	31,835	9,532	447,598
Notes and Loans Payable	-	-	-	-	303,885	303,885
Revenue/Mortgage Bonds Payable	7,875	913,730	-	245,407	2,203,670	3,370,682
Grand Prizes Payable	-	-	270,111	-	-	270,111
Due to Component Units	-	-	-	86,157	-	86,157
Derivative Instrument Payable	-	-	-	19,699	58,743	78,442
Other Noncurrent Liabilities	347	-	3,193	10,018	189,047	202,605
Total Liabilities	82,365	1,432,309	424,887	438,377	3,362,279	5,740,217
Net Assets						
Invested in Capital Assets, Net of Related Debt	21	3,837	4,994	(103)	1,163,511	1,172,260
Restricted for:						
Bond Covenants/Debt Service	1,525	-	-	-	27,692	29,217
Construction	-	-	-	4,759	9,482	14,241
Permanent Trusts						
Expendable	-	-	-	486,932	342,135	829,067
Nonexpendable	-	-	-	449,002	537,447	986,449
Loan and Grant Programs	39,458	-	-	-	-	39,458
Other Purposes	-	-	11	-	61	72
Unrestricted	1,807,522	171,403	19,618	59,462	1,001,163	3,059,168
Total Net Assets	$ 1,848,526	$ 175,240	$ 24,623	$ 1,000,052	$ 3,081,491	$ 6,129,932

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

STATE OF GEORGIA
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State of Georgia

Statement of Activities
Component Units
For the Fiscal Year Ended June 30, 2010
(dollars in thousands)

	Georgia Environmental Finance Authority	Georgia Housing and Finance Authority	Georgia Lottery Corporation	Georgia Tech Foundation, Incorporated	Nonmajor Component Units	Total
Expenses	$ 132,744	$ 198,386	$ 3,393,035	$ 117,459	$ 2,142,322	$ 5,983,946
Program Revenues:						
Sales and Charges for Services	59,935	13,053	3,392,442	15,647	1,142,714	4,623,791
Operating Grants and Contributions	60,030	198,285	10,337	156,375	993,055	1,418,082
Capital Grants and Contributions	118,998	-	-	-	26,234	145,232
Total Program Revenues	238,963	211,338	3,402,779	172,022	2,162,003	6,187,105
Net Revenue	106,219	12,952	9,744	54,563	19,681	203,159
General Revenues:						
Taxes	-	-	-	-	23,960	23,960
Payments from the State of Georgia	-	-	-	-	43,358	43,358
Contributions to Permanent Endowments	-	-	-	54,312	18,820	73,132
Total General Revenues	-	-	-	54,312	86,138	140,450
Change in Net Assets	106,219	12,952	9,744	108,875	105,819	343,609
Net Assets, July 1 - Restated (Note 3)	1,742,307	162,288	14,879	891,177	2,975,672	5,786,323
Net Assets, June 30	$ 1,848,526	$ 175,240	$ 24,623	$ 1,000,052	$ 3,081,491	$ 6,129,932

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


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Notes to the Financial Statements
Index

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

The financial statements of the State of Georgia 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 of Georgia 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 of Georgia. 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 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
Georgia Tourism Foundation
State Road and Tollway Authority

Enterprise Funds
State Road and Tollway Authority
Georgia Higher Education Facilities 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 (currently thirteen) 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 Golf Hall of Fame Authority
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
Georgia College & State University Foundation
Georgia Southern University Housing Foundation, Incorporated
Georgia State University Foundation
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 Health, Incorporated
Medical College of Georgia Physician's 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 expenses of a given function or segment are 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.

- *Georgia State Financing and Investment Commission (capital projects fund)* - accounts for the construction of projects for State agencies financed with public debt, 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.

- *Capital Projects Funds* - account for the acquisition or construction of capital facilities.

- *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 Georgia 400 Project Fund 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 and Real Estate Education, Research, and Recovery Funds 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/Fund Equity

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 of the Office of Treasury and Fiscal Services 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 of the Office of Treasury and Fiscal Services 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; accordingly, no allowance for uncollectible accounts has been 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 reserved 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 event has 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

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally segregated by outside parties for use for a specific purpose. Designations of fund balance represent tentative plans for future use of financial resources. Unreserved, undesignated fund balance is the amount of fund balance remaining from operations of the current and prior years, net of amounts established as reserved and designated.

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.

NOTE 2 – CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

Financial Reporting Entity
The Georgia Aviation Authority was created effective July 1, 2009, to acquire, operate, maintain, house, and dispose of all state aviation assets, to provide aviation services and oversight of state aircraft and aviation operations to ensure the safety of state air travelers and aviation property, to achieve policy objectives through aviation missions, and to provide for the efficient operation of state aircraft. This authority is included in the internal service funds of the State.

Early in fiscal year 2010, the Georgia Retiree Health Benefit (OPEB) Fund was split into two funds. Balances in the existing fund were transferred to the newly created Georgia School Personnel Post-employment Health Benefit Fund and the Georgia State Employees Post-employment Health Benefit Fund, and the original fund was terminated. The original fund does not appear in the financial statements contained herein. The assignment of balances to the new funds is reported in those funds as beginning net assets.

Revenue Recognition
Prior to fiscal year 2010, substantially all investment earnings were reported in the Statement of Activities as General Revenue – Unrestricted Investment Income. A closer evaluation of these revenues revealed that, except for earnings on general Treasury receipts, investment income is generated by and restricted to the various functions/programs of the State. In fiscal year 2010, all such amounts were reported as Program Revenues.

Lease Accounting / Reporting System
During fiscal year 2010, a new lease accounting software system was implemented which enforced a standard definition of lease term (as it relates to renewal options) among organizations in the reporting entity. This resulted in changes in beginning net assets both for assets under capital lease and for capital lease liabilities of governmental activities, business-type activities, fiduciary funds, and discretely presented component units in the amounts identified in Note 3.

Change in Accounting Estimate
During the fiscal year, it was determined that the estimate made of liabilities for outstanding claims at the end of fiscal year 2009 for the Property Insurance Fund (Internal Service Fund – Risk Management) had been overstated. As a result, beginning net assets of the internal service funds have been increased by $15 million.

Correction of Prior Year Errors
During the fiscal year, it was determined that the estimate of the claims liability for the fiscal year ended 2009 for the Workers Compensation Fund (Internal Service Fund – Risk Management) had not been discounted. This fund operated in a deficit for the fiscal year-ended June 30, 2009 and 2010. Accordingly, these deficits are charged back to the contributing funds. As a result of restating the prior year claims liability, beginning balances within the General Fund and Higher Education Fund have been increased to show the effect on the amount of deficit charge back reported in the prior year.

In fiscal year 2010, an error was discovered in the methodology for determining the split between retiree and active employee claims expense for the Board of Regents Retiree Health Benefit Fund (OPEB Fund), resulting in an increase in retiree claim costs which will be absorbed by the employer (higher education fund). Accordingly, reported employer contributions to the OPEB Fund have been increased by $41.7 million. Because the plan contributions and expenses increased by equivalent amounts, no restatement of the OPEB Fund financial statements was required. However, the increased employer contributions impacted both the Annual OPEB Cost and Net OPEB Obligation amounts reported in Note 11 and the OPEB obligation reported in the higher education fund. Therefore, beginning net assets of the proprietary funds have been increased by $41.7 million.

During the fiscal year, it was determined that projects of the Higher Education Foundations should be accounted for as capital leases. As such, the leased assets are treated as having been sold, and corresponding capital leases receivable are reported. These deemed sales resulted in significant gains equivalent to the difference between the capital lease receivable and the book value of the assets sold. These gains, along with adjustments to prior year rental income (for payments on the capital leases receivable) and depreciation expense, resulted in an increase to the beginning net assets of the discretely presented component units of $10.1 million.

Adoption of New Accounting Principles
In fiscal year 2010, the State implemented GASB Statement 53, *Accounting and Financial Reporting for Derivative Instruments*, addressing the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. This statement requires the cumulative effect of applying the statement be reported as a noncurrent asset and noncurrent liability. For hedging derivative instruments, GASB 53 considers the swaption premium a component of the bonds payable and requires interest to be accrued at the effective rate. As a result, beginning net assets of the discretely presented component units have been decreased by $1.1 million.

Also in fiscal year 2010, the State implemented GASB Statement 51, *Accounting and Financial Reporting for Intangible Assets*. The additional intangible assets (net of accumulated depreciation, where applicable) reported as a result of implementation of this statement required an adjustment to increase beginning net assets of governmental activities by $72.3 million.

In fiscal year 2011, the State will implement GASB Statement 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and GASB 59, *Financial Instruments Omnibus*. Governments will be required to classify and report amounts in the appropriate fund balance classifications by applying their accounting policies that determine whether restricted, committed, assigned, and unassigned amounts are considered to have been spent. Disclosure of the policies in the notes to the financial statements is required. As of the date of this report, the State has not determined the financial impact of implementing these statements.

NOTE 3 – FUND EQUITY RECLASSIFICATIONS AND RESTATEMENTS

	June 30, 2009 As Previously Reported	Adjustments	June 30, 2009 (Restated)
Governmental Funds and Activities			
Major Funds:			
General Fund	$ 3,028,433	$ -	$ -
Adjustment to Allocation of Internal Service Fund Deficit	-	67,871	3,096,304
Georgia State Financing and Investment Commission	1,496,019	-	1,496,019
Nonmajor Funds:			
Special Revenue Funds	436,838	-	436,838
Debt Service Fund	-	-	-
Permanent Fund	14	-	14
Total Governmental Funds	4,961,304	67,871	5,029,175
Government-wide Adjustments			
Capital Assets, net of depreciation	19,736,786	-	-
Adjustment to Assets under Capital Lease	-	204,971	-
Intangible Assets (GASB 51)	-	72,334	20,014,091
Other Noncurrent Assets	25,693	-	25,693
Long-Term Liabilities	(11,433,537)	-	-
Adjustment to Capital Lease Liability	-	(258,912)	(11,692,449)
Inclusion of Internal Service Funds	561,405	15,000	576,405
Total Governmental Funds and Activities	**$ 13,851,651**	**$ 101,264**	**$ 13,952,915**
Proprietary Funds and Business-Type Activities			
Major Funds:			
Higher Education Fund	$ 5,442,864	$ -	$ -
Correction of Prior Year Errors (various)	-	6,462	-
Adjustment to OPEB Obligation	-	41,750	
Adjustment to Allocation of Internal Service Fund Deficit	-	20,656	5,511,732
State Employees' Health Benefit Plan	33,474	-	33,474
Unemployment Compensation Fund	659,290	-	659,290
Nonmajor Funds:			
Enterprise Fund	43,325	-	43,325
Internal Service Funds			
Change in Claims Liability Estimation	430,824	15,000	445,824
Internal Service Funds Look-Back Adjustments	-	-	-
Removal of Internal Service Funds Relating to Governmental Activities	(561,402)	(15,000)	(576,402)
Total Proprietary Funds and Business-Type Activities	**$ 6,048,375**	**$ 68,868**	**$ 6,117,243**

	June 30, 2009 As Previously Reported	Adjustments	June 30, 2009 (Restated)
Fiduciary Funds			
Pension and Other Employee Benefit Trust Funds	$ 56,813,356	$ -	$ 56,813,356
Investment Trust Funds	6,566,050	-	6,566,050
Private Purpose Trust Funds	18,832		-
Adjustment to Assets under Capital Lease	-	775	-
Adjustment to Capital Lease Liability	-	(827)	18,780
Total Fiduciary Funds	**$ 63,398,238**	**$ (52)**	**$ 63,398,186**
Discretely Presented Component Units	$ 5,780,470	$ -	$ 5,780,470
Adjustment to Assets under Capital Lease	-	7,251	7,251
Adjustment to Capital Lease Liability	-	(9,825)	(9,825)
Derivatives (GASB 53)	-	(1,061)	(1,061)
Correction of Prior Year Errors (Capital Leases Receivable)	-	10,102	10,102
Correction of Prior Year Errors (various)	-	(614)	(614)
Total Discretely Presented Component Units	**$ 5,780,470**	**$ 5,853**	**$ 5,786,323**

NOTE 4 – FUND BALANCES/NET ASSETS

A. Restricted Assets

The State of Georgia reports net assets as restricted where legally segregated for a specific future use by enabling legislation in accordance with GASB Statement No. 46, "*Net Assets Restricted by Enabling Legislation.*" Otherwise, these balances are considered unrestricted. As of June 30, 2010 the government-wide statement of net assets reports the following as restricted net (dollars in thousands):

	Governmental Activities	Business Type Activities	Total Primary Government
Guaranteed Revenue Debt Common Reserve Fund	$ 71,299	$ -	$ 71,299
Lottery for Education	883,333	-	883,333
Motor Fuel Tax Funds	1,366,443	-	1,366,443
Permanent Trusts	-	391,144	391,144
Other Purposes	284,041	32,181	316,222
Total Restricted Net Assets	**$ 2,605,116**	**$ 423,325**	**$ 3,028,441**

B. Reserved Fund Balances

Reserved fund balances at June 30, 2010 are as follows (dollars in thousands):

	General Fund	Nonmajor Funds	Total Governmental Funds
Encumbrances	$ 917,933	$ -	$ 917,933
Georgia Academy for the Blind	-	14	14
Guaranteed Revenue Debt Common Reserve Fund	71,299	-	71,299
Inventories	41,667	-	41,667
Loans and Grant Programs	-	43,100	43,100
Lottery for Education	883,333	-	883,333
Roads and Bridges (Motor Fuel Tax Funds)	1,366,443	-	1,366,443
Unissued Debt / Debt Service	131,763	-	131,763
Culture and Recreation	67,112	-	67,112
Economic Development	22,196	-	22,196
Education	11,412	-	11,412
General Government	22,659	-	22,659
Health and Welfare	123,004	-	123,004
Public Safety	55,654	-	55,654
Transportation	22,836	-	22,836
Total Reserved Fund Balance	**$ 3,737,311**	**$ 43,114**	**$ 3,780,425**

C. Deficit Net Assets

The following funds reported total net assets deficits at June 30, 2010:

- State Employees Health Benefit Plan - $234 million
- Unemployment Compensation Fund - $102.1 million
- Internal Service Funds at Department of Administrative Services - $617 thousand

NOTE 5 - DEPOSITS AND INVESTMENTS

Cash and investments as of June 30, 2010 are classified in the accompanying financial statements as follows:

	Primary Government and Fiduciary Funds	Component Units	Total
Cash and Cash Equivalents	$ 2,687,464	$ 852,932	$ 3,540,396
Investments	3,803,189	2,701,235	6,504,424
Restricted Assets			
Cash and Cash Equivalents	47,224	453,078	500,302
Investments	94,796	479,564	574,360
Fiduciary Funds			
Cash and Cash Equivalents	3,035,019	-	3,035,019
Investments	62,581,750	-	62,581,750
Total Cash and Investments	**$ 72,249,442**	**$ 4,486,809**	**$ 76,736,251**

Cash and investments as of June 30, 2010 consist of the following:

	Primary Government and Fiduciary Funds	Component Units	Total
Cash on Hand	$ 6,488	$ 42	$ 6,530
Deposits with Financial Institutions (Note 5A)	3,090,519	1,003,771	4,094,290
Investments (Note 5B)	69,813,192	2,822,239	72,635,431
Assets Held at the Office of Treasury and Fiscal Services on Behalf of Other Organizations	(660,757)	660,757	-
	$ 72,249,442	**$ 4,486,809**	**$ 76,736,251**

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

6) Bank for Cooperatives, the Farm Credit Banks, the Home Loan Mortgage Corporation and the Federal National Mortgage Association.

The Director of the Office of Treasury and Fiscal Services (OTFS) 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 Director, a combination of the methods above may be utilized by a depository to secure deposits.

The State Depository 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 deposit at any State depository 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, 2010, bank balances of the primary government and its component units' deposits totaled $4.2 billion. Of these deposits, $800 million were exposed to custodial credit risk as follows (in thousands)

	Primary Government	Component Units	Total
Uninsured and Uncollaterized	$188,699	$433,668	$622,367
Uninsured and collateralized with securities held by the pledging financial institutions	30,386	62,847	93,233
Uninsured and collateralized with securities held by the pledging institution's trust departments or agents, but not in the State's name	44,030	40,306	84,336
Total deposits exposed to custodial credit risk	**$263,115**	**$536,821**	**$799,936**

The carrying amounts of the deposits of certain higher education foundations which utilize FASB standards were $213 million. These deposits are not included in the balances reflected above.

B. Investments

Primary Government (Other than Pension and Other Employee Benefit Trust Funds)

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; and
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.

Component Units

Component units follow applicable investing criteria described above for the primary government. Certain higher education foundations utilize FASB standards; therefore, only the June 30, 2010, balances are available as follows (in thousands):

	Fair Value
Cash Held by Investment Organization	$ 77,063
Certificates of Deposit	83,942
Corporate Bonds	182,089
Diversifying Strategies	32,741
Equity Securities	710,269
Government and Agency Securities	13,995
Investment Pools	442,933
Hedge Funds	220,754
Joint Ventures/Partnerships	598
Money Market Accounts	3,078
Mutual Funds	57,854
Natural Resources	69,052
Real Estate	87,357
Split-interest Investments	13,306
Total Investments	**$ 1,995,031**

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 (Other than Pension and Other Employee Benefit Trust Funds)
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 Director of OTFS may establish duration or maturity limitations for other investments. The following table provides information about the State's exposure to interest rate risk (in thousands).

		Maturity Period[1]				
	Total Fair Value	**Less than 3 Months**	**4 - 12 Months**	**1 - 5 Years**	**6 - 10 Years**	**More than 10 Years**
Asset-Backed Securities	$ 12,897	$ -	$ 252	$ 12,555	$ 90	$ -
Banker's Acceptances	106,686	106,686	-	-	-	-
Corporate Debt						
Domestic	49,260	779	2,364	40,380	3,502	2,235
International Government						
Obligations	2,000	-	-	2,000	-	-
Mortgage-Backed Securities						
Commercial	8,143	-	-	-	-	8,143
Municipal Bonds	1,094	-	66	165	863	-
Mutual Funds - Debt	29,752	-	174	1,481	23,738	4,359
Repurchase Agreements	2,633,098	2,600,000	33,098	-	-	-
U. S. Agency Obligations	5,989,240	2,678,270	2,004,100	998,476	98,355	210,039
U. S. Treasury Obligations	242,975	104,241	99,324	30,505	7,927	978
Total Debt Securities	**9,075,145**	**$5,489,976**	**$2,139,378**	**$1,085,562**	**$ 134,475**	**$ 225,754**
Equity Securities - Domestic	83,907					
Equity Securities - International	88					
Funds on Deposit with U. S. Treasure for Unemployment Compensation	212,540					
Mutual Funds - Equity	57,770					
Real Estate	6,071					
Real Estate Investment Trust	1,775					
Total Investments	**$9,437,296**					

[1]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		
Domestic	$ 5,978,327	4.3
International	406,100	3.0
International Government Obligations	897,446	4.3
Repurchase Agreements	1,697,141	0.0
U. S. Agency Obligations	1,071,858	2.0
U. S. Treasury Obligations	12,227,630	0.0
Total Debt Securities	22,278,502	
Common Stock	36,108,351	
Mutual Funds - Equity	867,117	
Total Investments	**$59,253,970**	

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	$ 38,980	$ -	$ -	$ 7,464	$ 8,370	$ 23,146
Corporate Debt						
Domestic	179,149	1,182	8,698	66,860	55,067	47,342
International	10,047	-	807	1,629	5,576	2,035
Mortgage-Backed Securities						
Commercial	54,511	-	-	394	4,646	49,471
Municipal Bonds	2,440	-	15	893	852	680
Mutual Funds - Debt*	6,198	-	-	2,879	3,319	-
Repurchase Agreements	-	-	-	-	-	-
U. S. Agency Obligations	125,384	-	1,786	23,771	13,335	86,492
U. S. Treasury Obligations	56,652	-	-	28,873	10,292	17,487
Total Debt Securities	**473,361**	**$ 1,182**	**$ 11,306**	**$ 132,763**	**$ 101,457**	**$ 226,653**
Equity Securities						
Domestic	279,697					
International	33,386					
Mutual Funds - Equity	318,135					
Real Estate Investment Trust	17,347					
Total Investments	**$1,121,926**					

* 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):

		Maturity Period				
	Total Fair Value	**Less Than 3 Months**	**4 - 12 Months**	**1 - 5 Years**	**6 - 10 Years**	**More than 10 Years**
Asset-Backed Securities	$ 21,535	$ -	$ 181	$ 8,822	$ 573	$ 11,959
Corporate Debt						
Domestic	77,877	98	5,308	62,649	7,918	1,904
International	11,295	20	724	8,212	1,977	362
Investment Agreements	32,479	-	-	-	-	32,479
Money Market Mutual Funds	20,092	1,214	18,878	-	-	-
Mortgage-Backed Securities						
Commercial	115,766	1,822	1,238	1,791	1,026	109,889
Municipal Bonds	2,843	-	-	666	249	1,928
Mutual Fund - Debt*	813	-	-	813	-	-
U. S. Agency Obligations	109,354	7,336	4,735	58,081	23,447	15,755
U. S. Treasury Obligations	353,596	26,127	39,091	139,747	71,711	76,920
Total Debt Securities	**745,650**	**$ 36,617**	**$ 70,155**	**$ 280,781**	**$ 106,901**	**$ 251,196**
Equity Securities						
Domestic	54,362					
International	8,628					
Real Estate Investment Trust	2,461					
Mutual Funds - Equity	15,927					
Total Investments	**$827,208**					

* 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 (Other than Pension and Other Employee Benefit Trust Funds)

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 Director of OTFS.
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 Director of OTFS.
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 Director of OTFS 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	B	Not Rated
Asset-Backed Securities	$ 12,897	$ 12,897	$ -	$ -	$ -	$ -	$ -	$ -
Bankers Acceptances	106,686	-	-	106,686	-	-	-	-
Corporate Debt								
Domestic	49,260	3,748	6,252	31,094	1,330	1,122	-	5,714
International Government								
Obligations	2,000	-	-	-	-	-	-	2,000
Mortgage-Backed Securities								
Commercial	8,143	8,143	-	-	-	-	-	-
Municipal Bonds	1,094	1,094	-	-	-	-	-	-
Mutual Funds - Debt	29,752	369	369	226	-	-	19	28,769
Repurchase Agreements	2,633,098	-	-	2,600,000	-	-	-	33,098
U. S. Agency Obligations	5,975,957	5,685,824	-	-	-	-	-	290,133
Total Credit Risk - Investments	**8,818,887**	**$ 5,712,075**	**$ 6,621**	**$ 2,738,006**	**$ 1,330**	**$ 1,122**	**$ 19**	**$ 359,714**
U. S. Treasury Obligations	242,975							
U. S. Agency Obligations								
Explicitly Guaranteed	13,283							
Total Debt Securities	**$ 9,075,145**							

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 Secutities - Domestic	Corporate Debt Domestic	Corporate Debt Inter-national	International Government Obligations	Mortgage-Backed Securuties	Municipal Bonds	Mutual Funds - Debt	Repurchase Agreements	U. S. Agency Obligations
AAA	$ 1,934,166	$ 12,840	$ 299,033	$ 189	$ 436,088	$ 8,814	$ 267	$ 606	$ -	$ 1,176,329
AA	4,783,897	6,718	3,897,834	407,922	461,358	7,349	-	2,716	-	-
A	3,591,108	3,490	1,871,424	3,687	-	10,496	2,173	2,697	1,697,141	-
BAA	18,919	440	14,756	1,129	-	2,594	-	-	-	-
BA	25,400	1,022	20,756	2,228	-	1,394		-	-	-
BBB	65,629	5,515	49,315	992	-	9,693	-	114	-	-
BB	3,892	1,080	2,493	-	-	288	-	31	-	-
B	8,460	3,016	145	-	-	5,266	-	33	-	-
CAA	2,964	1,286	-	-	-	1,678	-	-	-	-
CA	157	63	-	-	-	94		-	-	
CCC	3,569	1,663	35	-	-	1,871	-	-	-	-
CC	2,630	299	-	-	-	2,331	-	-	-	-
C	923	175	-	-	-	748	-	-	-	-
D	360	360	-	-	-	-	-	-	-	-
Unrated	17,880	1,013	1,685	-	-	1,895	-	1	-	13,286
Total Credit Risk - Investments	**10,459,954**	**$ 38,980**	**$ 6,157,476**	**$ 416,147**	**$ 897,446**	**$ 54,511**	**$ 2,440**	**$ 6,198**	**$ 1,697,141**	**$ 1,189,615**
U. S. Treasury Obligations	12,284,282									
U. S. Agency Obligations Explicitly Guaranteed	7,627									
Total Debt Securities	**$ 22,751,863**									

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	AAA	AA	A	BA	BBB	BB	CCC	Not Rated
Asset-backed Securities	$ 21,535	$ 19,084	$ 612	$ 1,013	$ -	$ 527	$ 102	$ 197	$ -
Corporate Debt									
Domestic	77,877	13,960	18,754	36,510	-	6,928	529	-	1,196
International	11,295	4,425	3,887	1,950	-	1,033	-	-	-
Investment Agreements	32,479	21,745	9,874	860	-	-	-	-	-
Money Market Mutual Funds	20,092	-	-	-	-	-	-	-	20,092
Mortgage-backed Securities									
Commercial	115,766	113,745	739	205	244	-	-	-	833
Municipal Bonds	2,843	1,785	649	409	-	-	-	-	
Mutual Fund - Debt	813	-	-	-	-	-	-	-	813
U. S. Agency Obligations	83,070	83,019	-	-	-	-	-	-	51
Total Credit Risk Investments	**365,770**	**$ 257,763**	**$ 34,515**	**$ 40,947**	**$ 244**	**$ 8,488**	**$ 631**	**$ 197**	**$ 22,985**
U. S. Treasury Obligations	353,596								
U. S. Agency Obligations - Explicitly Guaranteed	26,284								
Total Debt Securities	**$ 745,650**								

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.

Primary Government (Other than Pension and Other Employee Benefit Trust Funds)

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 Director of OTFS 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 OTFS, and thereafter maintain upon notification of any shortfall, collateral having a market value equal to 110% of CD's. At June 30, 2010, $432.6 million of the State'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, 2010, $732.8 million of the pension and other employee benefit trust funds' investments were uninsured, unregistered and held by the counterparty or the counterparty's trust department, but not in the State's name.

Component Units

The component units follow the applicable investing criteria described above for the primary government. At June 30, 2010, $98.6 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 (Other than Pension and Other Employee Benefit Trust Funds)

The State does not have a formally adopted policy for managing concentration of credit risk. At June 30, 2010, approximately 90% 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, 2010, 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, 2010, 10% 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. As of June 30, 2010, the estimated annual payments to be received under this lease are shown the next column:

	Principal	Interest	Total
2011	$ 2,005	$ 10,817	$ 12,822
2012	2,085	10,753	12,838
2013	2,295	10,685	12,980
2014	2,515	10,609	13,124
2015	2,760	10,508	13,268
2016-2020	18,070	50,582	68,652
2021-2025	27,215	45,308	72,523
2026-2030	36,685	37,096	73,781
2031-2035	49,105	25,280	74,385
2036-2040	57,970	9,686	67,656
Total Investment	**$200,705**	**$221,324**	**$422,029**

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 $263 million at June 30, 2010, and the collateral value was equal to 102%. The loaned securities are in the accompanying note disclosures based on the custodial arrangements for the collateral securities. Loaned securities are included in the accompanying Statement of Net 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 $ 15.9 billion at June 30, 2010, 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 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 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, 2010, the Department held surety bonds in the amount of $36.7 million, and cash bonds in the amount of $14.4 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, 2010, securities valued at $235.8 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 $14.2 billion for construction performance to ensure proper completion and complete performance of construction contracts, and $15.4 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.

For any organization that elects to assume the liability for unemployment compensation payments in lieu of making contributions to the Unemployment Compensation Fund, the Commissioner of the Department of Labor is authorized by statute to require such organization to execute and file with the Commissioner a cash deposit or surety bond. Cash deposits are held on behalf of such organizations in the Department's name, and are reported as agency funds. At June 30, 2010, the held surety bonds in the amount of $57.6 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, 2010, 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, 2010
(dollars in thousands)

Assets	
Cash and Cash Equivalents	$ 5,333,557
Investments	3,730,190
Net Assets	$ 9,063,747
Distribution of Net Assets	
External Participant Account Balances	$ 4,849,601
Internal Participant Account Balances	4,214,146
Total Net Assets	**$ 9,063,747**

Georgia Fund 1
Statement of Changes in Net Assets
For the Fiscal Year Ended June 30, 2010
(dollars in thousands)

Additions	
Pool Participant Deposits	$ 28,998,126
Investment Income	
Interest	30,726
Less: Investment Expense	(2,296)
Total Additions	29,026,556
Deductions	
Pool Participant Withdrawals	31,031,386
Net Increase	(2,004,830)
Net Assets	
July 1, 2009	11,068,577
June 30, 2010	**$ 9,063,747**

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, 2010, was $2.1 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):

		Maturity Period		Range of Yields
	Total Fair Value	Less than 3 Months	4 - 12 Months	
Bankers Acceptances	$ 106,686	$ 106,686	$ -	.230% - .320%
Repurchase Agreements	2,600,000	2,600,000	-	.050% - .240%
U. S. Agency Obligations	4,196,649	2,458,517	1,738,132	.060% - .700%
U. S. Treasury Obligations	101,742	101,742	-	.330% - .330%
Total Investments	**$ 7,005,077**	**$ 5,266,945**	**$ 1,738,132**	

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	Credit Rating	
	Fair Value	AAA	A
Banker's Acceptances	$ 106,686	$ -	$ 106,686
Repurchase Agreements	2,600,000	-	2,600,000
U. S. Agency Obligations	4,196,648	4,196,648	-
	$ 6,903,334	**$ 4,196,648**	**$ 2,706,686**

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, 2010, more than 5 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 98.5 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, 2010
(dollars in thousands)

Assets		
Cash and Cash Equivalents	$	24,682
Investments		170,197
Net Assets	$	194,879
Distribution of Net Assets		
External Participant Account Balances	$	131,661
Internal Participant Account Balances		63,218
Total Net Assets	**$**	**194,879**

Georgia Extended Asset Pool
Statement of Changes in Net Assets
For the Fiscal Year Ended June 30, 2010
(dollars in thousands)

Additions		
Pool Participant Deposits	$	65,400
Investment Income		
Interest		8,028
Fair Value Decrease		(2,949)
Less: Investment Expense		(145)
Total Additions		70,334
Deductions		
Pool Participant Withdrawals		234,378
Net Increase		(164,044)
Net Assets		
July 1, 2009		358,923
June 30, 2010	**$**	**194,879**

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, 2010, was $24.7 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):

	Total Fair Value	Maturity Period: 4 - 12 Months	Maturity Period: 1 - 5 Years	Range of Yields
U. S. Agency Obligations	$ 170,197	$ 51,984	$ 118,213	.640% - 5.11%

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 Fair Value	Credit Rating AAA
U. S. Agency Obligations	$ 170,197	$ 170,197

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, 2010, 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, 2010
(dollars in thousands)

Assets		
Investments	$	248,460
Interest Receivable		655
Net Assets	$	249,115
Distribution of Net Assets		
External Participant Account Balances	$	9,696
Internal Participant Account Balances		239,419
Total Net Assets	$	249,115

Regents Investment Pool
Statement of Changes in Net Assets
For the Fiscal Year Ended June 30, 2010
(dollars in thousands)

Additions		
Pool Participant Deposits	$	76,012
Investment Income		
Interest		3,641
Fair Value Increase		10,391
Less: Investment Expense		(441)
Total Additions		89,603
Deductions		
Pool Participant Withdrawals		9,642
Net Increase		79,961
Net Assets		
July 1, 2009		169,154
June 30, 2010	$	249,115

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, 2010, was $655 thousand. This amount is included in the deposit disclosures of the Primary Government.

Investments
The Regents Investment Pool policy guidelines indicate that all investments must be consistent with donor intent, Board of Regents policy and applicable federal and state law. The individual funds of the Pool provide various restrictions on the types of investments allowed.

Interest Rate Risk
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**
Mutual Bond Fund	$ 28,197	$ -	$ 1,420	$ 22,768	$ 4,009
Repurchase Agreements	26,381	26,381	-	-	-
U. S. Agency Obligations	145,980	7,347	18,478	11,031	109,124
U. S. Treasury Obligations	471	-	-	471	-
Total Debt Securities	**201,029**	**$ 33,728**	**$ 19,898**	**$ 34,270**	**$ 113,133**
Equity Securities					
Domestic	28,812				
Mutual Funds - Equity	16,078				
Real Estate Investment Fund	2,541				
Total Investments	**$ 248,460**				

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, 2010, 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, 2010, $172.8 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, 2010 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 57.1 percent of total investments.

NOTE 6 - RECEIVABLES

Receivables at June 30, 2010 consisted of the following in (in thousands):

	Taxes	Notes and Loans	Other	Inter-governmental Receivables	Gross Receivables	Allowance for Uncollectible	Receivables (Net)
Governmental Activities:							
General Fund	$1,508,459	$ 10,395	$2,623,826	$ 132,246	$4,274,926	$ (17,554)	$4,257,372
Nonmajor Governmental Funds	-	-	991	-	991	-	991
Total - Governmental Funds	1,508,459	10,395	2,624,817	132,246	4,275,917	(17,554)	4,258,363
Government-wide adjustments:							
General Fund	-	-	2,636	-	2,636	-	2,636
Internal Service Funds	-	-	42,947	662	43,609	(977)	42,632
Total - Governmental Activities	$1,508,459	$ 10,395	$2,670,400	$ 132,908	$4,322,162	$ (18,531)	$4,303,631
Business-Type Activities:							
Higher Education Fund	$ -	$ 49,217	$ 268,336	$ 117,776	$ 435,329	$ (16,759)	$ 418,570
State Employees' Health Benefit Plan	-	-	43,385	-	43,385	(3,926)	39,459
Unemployment Compensation Fund	-	-	174,097	7,659	181,756	(15,727)	166,029
State Road and Tollway Authority	-	-	96	-	96	-	96
Georgia Higher' Education Authority	-	200,705	487	-	201,192	-	201,192
Total - Business-Type Activities	$ -	$ 249,922	$ 486,401	$ 125,435	$ 861,758	$ (36,412)	$ 825,346
Component Units:							
Georgia Environmental Finance Authority	$ -	$1,458,461	$ 45,142	$ 15,126	$1,518,729	$ -	$1,518,729
Georgia Housing and Finance Authority	-	1,032,592	8,423	-	1,041,015	(5,000)	1,036,015
Georgia Lottery Corporation	-	-	125,389	-	125,389	(3,224)	122,165
Georgia Tech Foundation, Incorporated	-	1,080	245,182	-	246,262	-	246,262
Nonmajor Component Units	454	309,969	1,579,054	14,028	1,903,505	(47,944)	1,855,561
Total - Component Units	$ 454	$2,802,100	$2,003,190	$ 29,156	$4,834,900	$ (56,168)	$4,778,732

NOTE 7 – CAPITAL ASSETS

Primary Government

Capital Asset activity for the fiscal year-ended June 30, 2010, was as follows (in thousands):

Governmental Activities	**Balance July 1, 2009** (Restated –Note 3)	**Increases**	**Decreases**	**Balance June 30, 2010**
Capital Assets Not Being Depreciated:				
Land	$ 2,749,969	$ 202,262	$ (24,568)	$ 2,927,663
Works of Art and Collections	1,326	8	-	1,334
Construction in Progress	5,062,994	2,364,324	(2,048,569)	5,378,749
Total Capital Assets, Not Being Depreciated	7,814,289	2,566,594	(2,073,137)	8,307,746
Intangible Assets Not Being Depreciated:				
Intangibles – Other than Software	57,613	13,997	-	71,610
Capital Assets Being Deprecated:				
Infrastructure	20,378,740	837,926	(21,256)	21,195,410
Buildings	3,422,568	211,499	(169,876)	3,464,191
Improvements Other Than Buildings	79,657	3,553	(8,769)	74,441
Machinery and Equipment	884,735	166,189	(156,646)	894,278
Software	216,376	154,035	(152,572)	217,839
Works of Art and Collections	620	-	(620)	-
Total Capital Assets Being Depreciated	24,982,696	1,373,202	(509,739)	25,846,159
Less Accumulated Depreciation For:				
Infrastructure	10,374,624	866,978	(961)	11,240,641
Buildings	1,326,321	121,346	(37,284)	1,410,383
Improvements Other Than Buildings	42,981	2,440	(3,610)	41,811
Machinery and Equipment	648,874	45,940	(16,626)	678,188
Software	144,111	90,885	(96,817)	138,179
Works of Art and Collections	165	19	(184)	-
Total Accumulated Depreciation	12,537,076	1,127,608	(155,482)	13,509,202
Total Capital Assets, being Depreciable, Net	12,445,620	245,594	(354,257)	12,336,957
Governmental Activities Capital Assets, Net	**$ 20,317,522**	**$ 2,826,185**	**$ (2,427,394)**	**$ 20,716,313**

Business Type Activities:		Balance July 1, 2009 (Restated – Note 3)		Increases		Decreases		Balance June 30, 2010
Capital Assets Not Being Depreciated:								
Land	$	277,582	$	18,722	$	(785)	$	295,519
Works of Art and Collections		39,489		622		-		40,111
Construction in Progress		219,683		183,005		(172,276)		230,412
Total Capital Assets, Not Being Depreciated		536,754		202,349		(173,061)		566,042
Capital Assets Being Deprecated:								
Infrastructure		232,355		19,225		(2,081)		249,499
Buildings		6,606,801		477,622		(12,433)		7,071,990
Improvements Other Than Buildings		319,326		16,899		(1,080)		335,145
Machinery and Equipment		2,617,283		468,776		(64,972)		3,021,087
Software		12,043		4,611		-		16,654
Library Collections		716,944		33,940		(3,861)		747,023
Works of Art and Collections		1,511		4,166		(6)		5,671
Total Capital Assets Being Depreciated		10,506,263		1,025,239		(84,433)		11,447,069
Less Accumulated Depreciation For:								
Infrastructure		68,179		7,460		(969)		74,670
Buildings		1,833,470		169,215		(8,820)		1,993,865
Improvements Other Than Buildings		129,215		10,690		(875)		139,030
Machinery and Equipment		1,036,177		168,945		(58,005)		1,147,117
Software		5,285		2,537		-		7,822
Library Collections		541,009		32,910		(3,535)		570,384
Works of Art and Collections		509		86		-		595
Total Accumulated Depreciation		3,613,844		391,843		(72,204)		3,933,483
Total Capital Assets, being Depreciable, Net		6,892,419		633,396		(12,229)		7,513,586
Business-Type Activities, Capital Assets, Net	$	**7,429,173**	$	**835,745**	$	**(185,290)**	$	**8,079,628**

Special Items:

Demolition of approximately 85% of the Department of Transportation Building totaling $2,670,284 in net assets.
Impairment of Archives Building for planned demolition totaling $7,420,215 in net assets.

Governmental Activities	
General Government	$ 15,344
Education	3,199
Health and Welfare	103,486
Transportation	879,302
Public Safety	66,049
Economic Development	23,042
Culture and Recreation	11,835
Conservation	4,586
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 the assets)	20,765
Depreciation Expense - Governmental Activities	**$1,127,608**

Business-Type Activities	
Higher Education Fund	$ 391,056
State Road and Tollway Authority	787
Depreciation Expense - Business-Type Activities	**$ 391,843**

Component Units:	Balance July 1, 2009 (Restated – Note 3)	Increases	Decreases	Balance June 30, 2010
Capital Assets Not Being Depreciated:				
Land	$ 318,748	$ 4,718	$ (7,689)	$ 315,777
Works of Art and Collections	1,013	-	(1)	1,012
Construction in Progress	272,954	326,964	(341,667)	258,251
Total Capital Assets, Not Being Depreciated	592,715	331,682	(349,357)	575,040
Capital Assets Being Deprecated:				
Infrastructure	214,821	36,647	(785)	250,683
Buildings	928,855	53,164	(2,069)	979,950
Improvements Other Than Buildings	384,383	43,028	(980)	426,431
Machinery and Equipment	694,269	89,639	(9,380)	774,528
Software	2,331	2,183	(78)	4,436
Works of Art and Collections	71	-	-	71
Total Capital Assets Being Depreciated	2,224,730	224,661	(13,292)	2,436,099
Intangible Assets Depreciable:				
Intangibles –Other than Software	-	475	-	475
Less Accumulated Depreciation For:				
Infrastructure	79,719	6,598	(785)	85,532
Buildings	342,341	28,415	46,317	417,073
Improvements Other Than Buildings	142,983	16,911	14,711	174,605
Machinery and Equipment	433,994	49,039	(72,713)	410,320
Software		1,090	(78)	1,012
Works of Art and Collections	5	2	-	7
Total Accumulated Depreciation	999,042	102,055	(12,548)	1,088,549
Component Units Capital Assets, Net	**$ 1,818,403**	**$ 454,763**	**$ (350,101)**	**$ 1,923,065**

Certain higher education foundations and other similar organizations utilize FASB standards; therefore, only the June 30, 2010, balances are available as follows:

Capital Assets Not Being Depreciated:		
Land	$	52,419
Construction in Progress		50,979
Total Capital Assets, Not Being Depreciated		103,398
Capital Assets Being Depreciated:		
Buildings		272,840
Machinery and Equipment		25,820
Software		1,118
Total Capital Assets Being Depreciated		299,778
Less: Accumulated Depreciation		(58,170)
Capital Assets, Net (FASB presentation)		345,006
Total Capital Assets, Net - All Component Units	**$**	**2,268,071**

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, 2010, are as follows (in thousands):

	Balance July 1, 2009 (Restated - Note 3)	Additions	Reductions	Balance June 30, 2010	Amounts Due Within One Year
Governmental Activities:					
General Obligation Bonds Payable	$ 8,552,130	$ 1,434,680	$ 1,356,175	$ 8,630,635	$ 733,415
Revenue Bonds Payable	516,865	-	27,780	489,085	29,230
GARVEE Bonds Payable	1,529,405	-	112,555	1,416,850	117,500
Less deferred amounts:					
On Refunding	(101,598)	(92,394)	(12,201)	(181,791)	-
Net Unamortized Premiums (Discounts)	397,631	137,337	42,530	492,438	-
Total Bonds Payable	10,894,433	1,479,623	1,526,839	10,847,217	880,145
Notes and Loans Payable	27,698	-	84	27,614	8,014
Capital Lease Obligations	262,177	6,201	25,948	242,430	25,375
Compensated Absences Payable	338,877	107,608	124,125	322,360	133,940
Arbitrage	25,165	3,715	15,523	13,357	5,927
Total Governmental Activities	**$ 11,548,350**	**$ 1,597,147**	**$ 1,692,519**	**$ 11,452,978**	**$ 1,053,401**
Business-Type Activities:					
Revenue Bonds Payable	$ 124,690	$ 100,850	$ 7,880	$ 217,660	$ 10,275
Less deferred amounts:					
On Refunding	(671)	-	(403)	(268)	-
Net Unamortized Premiums (Discounts)	(2,283)	(1,350)	(55)	(3,578)	-
Total Bonds Payable	121,736	99,500	7,422	213,814	10,275
Notes and Loans Payable	8,733	416,000	309	424,424	296
Capital Lease Obligations	2,240,001	468,842	60,522	2,648,321	58,491
Compensated Absences Payable	201,669	140,994	131,808	210,855	120,055
Other Postemployment Benefit Obligation	395,475	304,463	-	699,938	-
U. S. DOE Settlement	548	-	247	301	240
Total Business-Type Activities	**$ 2,968,162**	**$ 1,429,799**	**$ 200,308**	**$ 4,197,653**	**$ 189,357**

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, $7.5 million of internal service funds compensated absences are included in the above balance as of June 30, 2010. Of this amount, $3.7 million is due within one year. Also, for the governmental activities, capital leases and compensated absences are generally liquidated by the general fund.

A. Changes in Long-Term Liabilities

Component Units

Changes in long-term liabilities for the fiscal year-ended June 30, 2010, are as follows (in thousands):

	Balance July 1, 2009 (Restated - Note 3)	Additions	Reductions	Balance June 30, 2010	Amounts Due Within One Year
Revenue Bonds Payable	$ 2,451,041	$ 280,795	$ 209,735	$ 2,522,101	$ 75,928
Mortgage Bonds Payable	770,620	225,000	57,705	937,915	24,215
Deferred Amount on Refunding	(646)	-	(258)	(388)	-
Net Unamortized Premiums (Discounts)	14,405	1,465	4,673	11,197	-
Total Bonds Payable	3,235,420	507,260	271,855	3,470,825	100,143
Notes and Loans Payable	404,667	293,532	289,179	409,020	100,938
Net Unamortized Premiums	446	(4,853)	(212)	(4,195)	-
Capital Lease Obligations	23,095	340	5,746	17,689	3,547
Compensated Absences Payable	23,094	10,519	10,219	23,394	17,015
Grand Prizes Payable	294,524	22,752	34,196	283,080	12,969
Other Liabilities	134,084	141,571	55,858	219,797	3,940
Total Component Units	**$ 4,115,330**	**$ 971,121**	**$ 666,841**	**$ 4,419,610**	**$ 238,552**

B. Bonds and Notes Payable

At June 30, 2010, bonds and notes payable currently outstanding are as follows: (in thousands):

	Interest Rates	Maturing Through Year	Original Issue Amount	Amount
Governmental Activities				
General Obligation Bonds				
General Government	1.00% - 7.25%	2030	$ 16,172,155	$ 6,744,620
General Government - Refunding	2.00% -5.50%	2031		1,886,015
Revenue Bonds				
Transportation Projects	2.250% - 5.375%	2023	659,140	489,085
GARVEE Bonds	2.50%-5.00%	2021	1,650,000	1,416,850
Notes and Loans Payable	0%	2014	32,614	27,614
Business-Type Activities				
Revenue Bonds				
Georgia 400 Project and Higher Education Facilities	3.00% - 6.25%	2040	$ 289,725	$ 217,660
Notes and Loans Payable	4.25% - 5.50%	2025	426,249	424,424
Component Units				
Revenue Bonds				
University System of Georgia Foundations	1.25% - 6.66%	2041	$ 2,661,495	$ 2,309,665
Other Revenue Bonds	.27% - 6.00%	2028	419,995	212,436
Mortgage Bonds				
Georgia Housing and Financing Authority	.0015% - 6.15%	2043	1,639,773	937,915
Notes and Loans Payable				
University System of Georgia Foundations	.6% - 6.25%	2040	383,784	332,695
Other Notes and Loans Payable	.78% - 6.6%	2025	146,697	76,325

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, 2010 are as follows (in thousands):

Purpose	Authorized Unissued Debt
Education	$ 325,495
Technical College System of Georgia	96,655
Transportation	48,805
Board of Regents	47,320
Ports Authority	33,915
Regional Transportation Authority	15,300
Behavioral Health and Developmental Disabilities	8,720
Georgia Building Authority	2,230
Forestry	1,910
Veterans	100
Total	**$ 580,450**

Defeasance of General Obligation Bonds

On November 24, 2009 the State utilized the premium from the series 2009F and series 2009G bonds to pre-pay $34,1 million of outstanding general obligation bonds due to December 1, 2009; this provided budgetary relief to the fiscal year 2010 budget cycle.

As of June 30, 2010, the State had total outstanding defeased general obligation bonds held in escrow of $3.8 million.

Refunding of General Obligation Bonds

In November 2009, the State used the proceeds of the series 2009I bond issue to refund $657.8 million of outstanding general obligation bonds; this refunding will provide multi-year budget relief through FY 2023 as the refunding bonds have lower debt service payments as compared to the original debt service payment schedule of the refunded bonds.

As of June 30, 2010, the State had total outstanding refunded bonds held in escrow of $1.6 billion.

Early Retirement of Debt

From interest earnings available for the advance retirement of debt, the State made 54 purchases of State of Georgia General Obligation Bonds in the secondary market with a par value of $39.3 million. These early retirements of bonds will save the State $54.1 million in future principal and interest appropriations and reduce debt service in FY 2011 by $7.8 million. The early retirement program to-date has saved the State over $1.5 billion in future principal and interest appropriations.

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 Guaranteed Refunding 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, 2010, the outstanding principal balance for these Guaranteed Refunding Revenue Bonds is $17 million.

The Georgia Higher Education Facilities 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. As of June 30, 2010, the outstanding principal for these revenue bonds is $200.7 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, 2010 of $2.3 billion.

Other component units had Revenue Bonds Payable outstanding at June 30, 2010 of $212.4 million as detailed below (in thousands):

	Amount
Georgia World Congress Center	130.4
Georgia Ports Authority	53.9
Georgia Environmental Facilities Authority	14.3
Lake Lanier Island Developmental Authority	9.4
Regional Educational Service Agencies	4.4
Total	**$ 212.4**

E. Mortgage Bonds

Component Units

Mortgage bonds outstanding of $937.9 million at June 30, 2010 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, 2010 was $27.6 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, 2010 was $424.4 million. During fiscal year 2010, the state of Georgia borrowed $416 million from the U.S. Treasury to pay state unemployment benefits. Georgia is one of thirty-four states that borrowed from the U.S. Treasury to pay state unemployment benefits. Interest charges may begin to accrue in January 2011. 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 2010. In addition, the Georgia Military College had a note payable of $6.4 million.

Component Units

Notes and Loans Payable as of June 30, 2010 (in thousands):

	Amount
Higher Education Foundations	$ 306.3
Georgia Ports Authority	45.6
Georgia Tech Foundation, Inc.	26.4
Lake Lanier Islands Development Authority	12.7
Georgia Development Authority	9.3
North Georgia Mountains Authority	6.6
Jekyll Island State Park Authority	2.1
Total Notes and Loans Payable	**$ 409.0**

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, 2010 is $200.7 million.

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, 2010, $30.2 million was outstanding on the loan payable. The loan agreement provides for semi-annual interest payments at interest rates ranging from 2.5 to 5.0 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, 2010, amounts outstanding or issued under this agreement included borrowings of $10.4 million and letters of credit and bank reserves with $2.1 million tendered, resulting in $39.6 million available as borrowing capacity under this line. Borrowings under the revolving credit agreement bear interest at the bank's 30-day LIBOR plus 0.325 percent. At June 30, 2010, the rate applicable to the borrowings was .678 percent.

During the year ended June 30, 2010, the Kennesaw State University Foundation entered into an unsecured line of credit of $2.8 million to provide interim financing for the Health Services Facility. The line of credit bears interest at the 30-day LIBOR plus 1.75%. The line of credit balance was $0 at June 30, 2010. Also during 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 4 percent and 1.26 percent, respectively. As of June 30, 2010, the lines of credit balances were $21.9 million and $26.9 million, respectively. Additionally, during 2010, the Foundation renewed an unsecured operating line of credit of $5 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, 2010 was $5 million.

In addition to the notes and loans discussed in the previous paragraphs, as of June 30, 2010 an additional $11.2 million in notes were held by various higher education foundations.

Other Component Units Notes and Loans

The Georgia Student Finance Authority had a $150 million line of credit with a financial institution for the purpose of originating and refinancing loans made under the Guaranteed Student Loan Program. On June 28, 2010, the Authority paid off the line of credit in full and did not renew the contract.

The Georgia Ports Authority maintains an uncollateralized revolving line of credit in the amount of $48 million. As of June 30, 2010, $45.7 million was outstanding on this line of credit. The interest rate (.72 percent at June 30, 2010) is based on the one month LIBOR rate. This revolving line of credit expires on September 5, 2017.

The Georgia Tech Foundation, Inc. (the Foundation) has two $15 million revolving lines of credit. As of June 30, 2010, $26.5 million was outstanding on these lines of credit. Interest is calculated using the 30-day LIBOR rate plus 0.60 percent. One line of credit was renewed through June 2011 and the second was extended until November 2010.

The Georgia Development Authority reported three long-term notes payable to banks with a combined outstanding balance at June 30, 2010, of $9.3 million. One note, secured by LIBOR mortgage loans financed through the note, is payable in semi-annual payments of $385 thousand that includes interest at LIBOR plus .8 percent, and has an outstanding balance at June 30, 2010 of $1.2 million. This loan expires September 30, 2011. Another note, secured by various fixed rate mortgage loans financed through the note, bears interest at a rate of 6.6 percent per annum, and has an outstanding balance at June 30, 2010 of $6.7 million. This loan expires March 31, 2013. The final note, secured by LIBOR mortgage loans financed through the note, is payable in semi-annual payments at a rate of LIBOR plus 1.15 percent, and has an outstanding balance at June 30, 2010 of $1.4 million. This loan expires July 31, 2018.

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

Medical College of Georgia

Medical College of Georgia is responsible for asbestos abatement as a small part of the project costs for the renovation of the third floor of the Hamilton Wing in the Research and Education building, renovation of several labs in the Research and Education building, and removal of mastic material in the dental building basement. The College has recorded a liability and expense related to this pollution remediation in the amount of $763. The liability is reflected on the Statement of Net Assets in Accounts Payable and on the Statement of Revenues, Expenses, and Changes in Net Assets in Supplies and Other Services. The liability is the remaining amount of project abatement costs at June 30, 2010. The College does not anticipate any significant changes to the expected remediation outlay. Pollution remediation liability activity in fiscal year 2010 was as follows (in thousands):

Balance July 1, 2009	Additions	Reductions	Balance June 30, 2010	Amounts Due Within One Year
$54	$36	$89	$1	$1

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 $962,513. The liability is reflected on the Statement of Net Assets in Accounts Payable and on the Statement of Revenues, Expenses and Changes in Net Assets in Supplies and Other Services. 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 2010 was as follows (in thousands):

Balance July 1, 2009	Additions	Reductions	Balance June 30, 2010	Amounts Due Within One Year
$959	$132	$128	$963	$134

Savannah State University

Savannah State University is responsible for mold remediation at Camilla Hubert Hall. The University had recorded a liability and expense related to this pollution remediation in the amount of $86,450 as of June 30, 2009. 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. There were no estimate changes, the remediation occurred during the current fiscal year, and there are no expected recoveries that have reduced the liability. Pollution remediation liability activity in fiscal year 2010 was as follows (in thousands):

Balance July 1, 2009	Additions	Reductions	Balance June 30, 2010	Amounts Due Within One Year
$86	$ -	$86	$ -	$ -

Georgia Institute of Technology

Georgia Institute of Technology 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, 2010, the Institute recorded a liability and expense in the amount of $298,617 for asbestos abatement projects in various Institute structures. The liability is reflected on the Statement of Net Assets in Accounts Payable and on the Statement of Revenues, Expenses, and Changes in Net Assets in Supplies and Other Services. 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 2010 was as follows:

Balance July 1, 2009	Additions	Reductions	Balance June 30, 2010	Amounts Due Within One Year
$ 22	$ 299	$ 22	$ 299	$ 299

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
2011	$ 733,415	$ 390,170	$ 29,230	$ 24,774	$ 117,500	$ 67,742	$ 8,014	$ -
2012	697,090	353,734	30,770	23,232	122,560	62,635	5,000	-
2013	654,795	318,941	32,390	21,614	128,930	56,781	10,600	-
2014	596,865	287,259	34,125	19,872	134,530	50,715	4,000	-
2015	584,695	258,146	35,945	18,057	141,150	44,095	-	-
2016-2020	2,501,205	908,756	209,945	60,056	708,465	115,937	-	-
2021-2025	1,906,465	399,285	116,680	10,536	63,715	3,071	-	-
2026-2030	956,105	85,088	-		-	-	-	-
Total	**$ 8,630,635**	**$ 3,001,379**	**$ 489,085**	**$ 178,141**	**$ 1,416,850**	**$ 400,976**	**$ 27,614**	**$ -**

	Business-Type Activities			
	Revenue Bonds		Notes and Loans Payable	
Year	Principal	Interest	Principal **	Interest
2011	$ 10,275	$ 11,415	$ 296	$ 385
2012	10,770	10,948	294	372
2013	2,295	10,685	309	358
2014	2,515	10,609	324	343
2015	2,760	10,508	339	327
2016-2020	18,070	50,582	6,053	332
2021-2025	27,215	45,308	809	115
2026-2030	36,685	37,096	-	-
2031-2035	49,105	25,280	-	-
2036-2040	57,970	9,686	-	-
Total	**$ 217,660**	**$ 222,117**	**$ 8,424**	**$ 2,232**

* Includes $280.8 million of bonds with variable interest rates based on the weekly rate determination of the Remarketing Agent. The interest rate at June 30, 2010, for these variable rate bonds was as follows: .35% for $93.6 million, .30% for $93.6 million and .30% for $93.6 million.

** The note payable to the U.S. Treasury for $416 million to state unemployment benefits has not been included in this schedule. A repayment schedule has not yet been implemented.

Component Units

	University System of Georgia Foundations		Other Component Units		Georgia Housing and Finance Authority	
	Revenue Bonds		Revenue Bonds		Mortgage Bonds	
Year	Principal	Interest	Principal	Interest	Principal	Interest
2011	$ 42,245	$ 102,012	$ 33,683	$ 4,867	$ 24,215	$ 34,904
2012	50,000	103,695	34,710	7,652	32,290	33,885
2013	52,839	98,664	22,304	6,647	19,510	32,680
2014	58,240	97,793	12,063	6,032	19,705	31,869
2015	61,391	95,334	12,839	5,378	17,225	31,077
2016-2020	355,550	431,764	74,388	15,871	130,690	139,687
2021-2025	429,314	342,302	20,194	1,468	145,355	106,733
2026-2030	524,073	231,730	2,255	197	140,995	71,669
2031-2035	487,537	106,185	-	-	144,680	35,628
2036-2040	247,656	27,464	-	-	67,205	5,828
2041-2045	820	41	-	-	196,045	9,581
Total	**$ 2,309,665**	**$ 1,636,984**	**$ 212,436**	**$ 48,112**	**$ 937,915**	**$ 533,541**

	University System of Georgia Foundations		Other Component Units	
	Notes and Loans Payable		Notes and Loans Payable	
Year	Principal	Interest	Principal	Interest
2011	$ 94,037	$ 13,268	$ 11,701	$ 1,064
2012	4,359	12,672	8,062	1,169
2013	5,576	12,435	7,080	953
2014	3,448	12,253	5,675	809
2015	3,732	12,114	3,580	744
2016-2020	28,325	57,156	36,350	2,056
2021-2025	33,092	49,975	3,877	974
2026-2030	44,006	40,188	-	206
2031-2035	58,150	26,416	-	-
2036-2040	57,970	9,686	-	-
Total	**$ 332,695**	**$ 246,163**	**$ 76,325**	**$ 7,975**

NOTE 9 - LEASES

A. Operating Leases

The State leases land, office facilities, office and computer equipment, and other assets. 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 $53.5 million, $39.8 million, and $18.7 million, respectively, for the year ended June 30, 2010. Future minimum commitments for operating leases as of June 30, 2010, are listed below (in thousands). Amounts are included for renewable leases for which the option to renew for the subsequent fiscal year has been exercised.

	Primary Government		
Fiscal Year Ended June 30	Governmental Activities	Business-Type Activities	Component Units
2011	$ 39,826	$ 34,035	$ 16,594
2012	24,131	13,486	10,581
2013	16,500	11,975	9,990
2014	12,510	7,811	9,746
2015	8,537	5,811	8,877
2016-2020	31,423	19,273	43,387
2021-2025	1,861	10,721	20,477
2026-2030	227	7,902	20,555
2031-2035	19	1,643	8,134
2036-2040	8	-	15
Total Minimum Commitments	**$ 135,042**	**$ 112,657**	**$ 148,356**

B. Capital Leases

The State acquires certain property and equipment through multi-year capital leases with varying terms and options. The majority of these agreements contain fiscal funding clauses in accordance with OCGA 50-5-64 which prohibits the creation of a debt to the State of Georgia for the payment of any sums under such agreements beyond the fiscal year of execution if appropriated funds are not available. If renewal of such agreements is reasonably assured, however, capital leases requiring appropriation by the General Assembly are considered non-cancellable for financial reporting purposes. At June 30, 2010, the historical cost of assets acquired through capital leases was as follows (in thousands):

	Primary Government		
	Governmental Activities	**Business-Type Activities**	**Component Units**
Land	$ -	$ 41,355	$ -
Infrastructure	-	-	-
Buildings	362,619	3,240,091	57,938
Improvements Other Than Buildings	-	89,375	-
Machinery and Equipment	2,503	99,685	6,701
Software	-	-	1,088
Less: Accumulated Depreciation	(180,181)	(380,578)	(13,128)
Total Assets Held Under Capital Lease	**$ 184,941**	**$ 3,089,928**	**$ 52,599**

At June 30, 2010, future commitments under capital leases were as follows (in thousands):

	Primary Government		
	Governmental Activities	**Business-Type Activities**	**Component Units**
Fiscal Year Ended June 30			
2011	$ 50,336	$ 189,954	$ 7,862
2012	47,139	188,837	5,921
2013	44,064	188,926	5,299
2014	36,970	189,006	5,237
2015	35,129	221,746	5,078
2016-2020	129,123	972,151	10,785
2021-2025	58,881	978,710	-
2026-2030	36,046	971,314	-
2031-2035	16,511	656,861	-
2036-2040	2,438	283,904	-
2041-2045	512	771	-
2046-2050	30	-	-
2051-2055	30	-	-
2056-2060	24	-	-
Total Capital Lease Payments	457,233	4,842,180	40,182
Less: Interest and Executory Costs	(214,803)	(2,193,859)	(22,493)
Present Value of Capital Lease Payments	**$ 242,430**	**$ 2,648,321**	**$ 17,689**

C. Lease Receivables

The State leases certain facilities and land for use by others for terms varying from 1 to 65 years. The majority of the governmental activities leases are for facilities controlled by the State Properties Commission. 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 $29.1 million, $48.6 thousand, and $31.5 million, respectively, for the year ended June 30, 2010. Minimum future revenues and rentals to be received under operating leases as of June 30, 2010, are as follows (in thousands):

	Primary Government		
Fiscal Year Ended June 30	Governmental Activities	Business-Type Activities	Component Units
2011	$ 29,064	$ 48	$ 36,035
2012	29,282	44	26,088
2013	29,802	1	21,062
2014	29,918	-	20,521
2015	30,421	-	20,370
2016-2020	137,079	-	88,352
2021-2025	58,311	-	77,671
2026-2030	42,848	-	73,513
2031-2035	3,871	-	57,745
2036-2040	4,092	-	24,776
2041-2045	3,443	-	-
2046-2050	32	-	-
Total Minimum Revenues	**$ 398,163**	**$ 93**	**$ 446,133**

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). 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 2010 were based on the June 30, 2007 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 Retirement System (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, 2010 were 5.25% of annual salary. The member contribution rate will increase to 5.53% effective July 1, 2010. Employer contributions required for fiscal year 2010 were 9.74% of annual salary as required by the June 30, 2007 actuarial valuation. The employer contribution rate will increase to 10.28% effective July 1, 2010.

The following table summarizes the State's employer contributions by defined benefit plan for the years ended June 30, 2010, 2009, 2008 (dollars in thousands):

	ERS		TRS	
	Required Contribution	Percent Contributed	Required Contribution	Percent Contributed
2010	$ 236,656	100%	$ 161,184	100%
2009	$ 258,307	100%	$ 147,863	100%
2008	$ 263,293	100%	$ 142,523	100%

In addition to the above contributions for employees of organizations in the State reporting entity, the State Departments of Revenue and Education are also responsible for making contributions to ERS or TRS on behalf of employers that are not in the reporting entity. The Department of Education made its contributions to TRS of approximately $6 million per year for public school support personnel, but the Department of Revenue did not make its contributions totaling about $5.7 million for local tax officials because funds were not appropriated.

The number of participating employers by plan as of June 30, 2010 was:

ERS	741
TRS	386

These counts treat each legal entity in the State reporting entity as separate employers. Of the 741 employers in the ERS count, 447 are not in the State of Georgia reporting entity. Of the 386 employers in the TRS count, 286 are not in the State of Georgia 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, 2009, the most recent actuarial valuation date, is as follows (in thousands):

Retirement System	Actuarial Value of Assets *(a)*	Actuarial Accrued Liability (AAL) --Entry Age *(b)*	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a)/(b)	Annual Covered Payroll *(c)*	UAAL as a Percentage of Covered Payroll (b-a)/(c)
ERS	$ 13,613,606	$ 15,878,022	$ 2,264,416	85.7%	$ 2,674,155	84.7%
TRS	$ 54,818,373	$ 62,870,138	$ 8,051,765	87.2%	$ 10,641,543	75.7%

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, 2009	June 30, 2009
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	7.50%*	7.50%*
Projected salary increases	5.45-9.25%*	3.20-8.60%*
Postretirement cost of living adjustment	None	3.00% annually

* Includes an inflation assumption of 3.75%

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 2010, 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 2010, employer and employee contributions were $88.2 million (9.24%) and $49.3 million (5%), respectively.

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 Postemployment Health Benefit Fund (State OPEB Fund)
Georgia School Personnel Postemployment 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 is 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, 2010 were as follows:

	% of Covered Payroll		
	Combined Active and State OPEB Fund	***Combined Active and School OPEB Fund**	
June 2009	0.000%	3.688%	for July Coverage
July 2009	22.165%	18.534%	for August Coverage
August 2009 – October 2009	16.581%	14.492%	for September – November Coverage
November 2009 – June 2010	22.165%	18.534%	for December – 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 rate (combined active and retiree) is $162.72 per member per month plus a State Department of Education on-behalf contribution.

No additional contribution was required by the Board for fiscal year 2010 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 years ended June 30, 2010, 2009, and 2008 were (dollars in thousands):

	State OPEB Fund		School OPEB Fund	
	State Employer Required Contribution	**Percent Contributed**	**State Employer Required Contribution**	**Percent Contributed**
2010	$ 19,516	100%	$ 1,535	100%
2009	$ 150,756	100%	$ 1,571	100%
2008 *	$ 242,526	100%	$ 1,373	100%

* Amounts for 2008 were restated to incorporate additional information about participating employers in each plan after the plan split.

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 2010, 2009, and 2008 were $0.3 million, $5.1 million, and $10.2 million respectively. Employer contributions to the State OPEB Fund are significantly reduced from prior years because current year claims were paid from existing plan assets.

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, amended 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 of the Employees' and Judicial Retirement Systems.

Contributions by plan members are established by the Boards of Trustees, up to the maximum allowed by statute (not to exceed 0.5% of earnable compensation). The Boards of Trustees of the Employees' and Judicial Retirement Systems 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, 2010, 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, 2010, 2009, and 2008.

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 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 2010 plan year, the employer rate was approximately 72% of the total health insurance cost for eligible retirees and the retiree rate was approximately 28%. 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 2010, 2009 and 2008 which was the transition year (dollars in thousands):

	Fiscal Year Ended June 30, 2010	Fiscal Year Ended June 30, 2009	Fiscal Year Ended June 30, 2008
Annual required contribution	$ 381,700	$ 349,500	$ 224,900
Interest on net OPEB obligation	17,800	7,100	-
Adjustment to annual required contribution	(25,200)	(9,500)	-
Annual OPEB cost (expense)	374,300	347,100	224,900
Less: Contributions made	(69,900)	(68,100)	(66,700)
Increase in net OPEB obligation	304,400	279,000	158,200
Net OPEB obligation - beginning of year	395,500 *	158,200	-
Net OPEB obligation - end of year	**$ 699,900**	**$ 437,200**	**$ 158,200**
Percentage of annual OPEB cost contributed	**18.7%**	**19.6%**	**29.7%**

* The fiscal year 2010 beginning of year balance was restated. Refer to Note 2 for further details.

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	6/30/2009	$ 136,932	$ 4,520,953	$ 4,384,021	3.0%	$ 2,730,018	160.6%
School OPEB	6/30/2009	$ 33,806	$ 11,900,505	$ 11,866,699	0.3%	$ 11,628,960	102.0%
SEAD-OPEB	6/30/2009	$ 628,199	$ 733,671	$ 105,472	85.6%	$ 2,653,527	4.0%
Regents Plan	7/1/2009	$ 10,566	$ 3,129,508	$ 3,118,942	0.3%	$ 2,399,532	130.0%

The number of participating employers for the multiple-employer postretirement benefit plans as of June 30, 2010 was:

State OPEB	221
School OPEB	253
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 count, 539 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 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, 2009	June 30, 2009	July 1, 2010 with results rolled back to July 1, 2009
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 28 years, closed
Remaining amortization period	30 years	30 years	28 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	9.25%*	n/a	8.25%**
Ultimate trend rate	5.00%		4.50%

* Includes an inflation assumption of 3.75%
** Includes an inflation assumption of 2.50%

Since the previous valuation, the method used for amortization of the SEAD-OPEB unfunded liability has been changed from level percentage of payroll to level dollar because the plan is now completely closed to new entrants and total payroll is no longer expected to increase over time.

NOTE 12 – RISK MANAGEMENT

A. Public Entity Risk Pool

The Department of Community Health administers the States Health Benefit Plan for the State. Participants include State agencies, component units, participating county governments and local educational agencies. This plan is funded by participating employer and employee contributions and appropriations from the General Assembly of Georgia. The Department of Community Health has contracted with Blue Cross Blue Shield of Georgia, Cigna, United Health Care and Express Scripts 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 Georgia 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 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, 2010, of $349.9 million for both workers 'compensation and liability was charged back to the contributing funds. Expenditures of $248.2 million are reported in the general fund, and expenses of $70.9 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, 2010, and 2009, is shown below (in thousands):

	Public Entity Risk Pool		Board of Regents Employee Health Benefits Plan		Risk Management Fund	
	Fiscal Year Ended June 30, 2010	Fiscal Year Ended June 30, 2009	Fiscal Year Ended June 30, 2010	Fiscal Year Ended June 30, 2009	Fiscal Year Ended June 30, 2010	Fiscal Year Ended June 30, 2009
Unpaid Claims and Claim Adjustments July 1 (restated)	$ 212,158	$ 200,353	$ 21,828	$ 24,049	$ 403,851	$ 415,752
Current Year Claims and Changes in Estimates	2,181,811	2,095,327	181,684	224,199	169,540	292,202
Claims Payments	(2,178,515)	(2,083,521)	(187,858)	(226,420)	(128,645)	(190,738)
Unpaid Claims and Claim Adjustments June 30	**$ 215,454**	**$ 212,158**	**$ 15,654**	**$ 21,828**	**$ 444,746**	**$ 517,215**

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 presented within the Long-Term Liabilities section.

A. Interest Rate Swap Derivatives

University of Georgia Athletic Association

The fair value balances and notional amounts of hedging derivative investments outstanding as reported in the 2010 financial statements are as follows:

Component Units	Changes in Fair Value		Fair Value at June 30, 2010		
Hedging derivatives:	Classification	Amount	Classification	Amount	Notional
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
				$ (12,810,423)	

The fair value balances and notional amounts of hedging derivative instruments outstanding at June 30, 2009, and the changes in fair value of such derivative instruments for the year then ended as reported in the 2009 financial statements are as follows:

Component Units	Changes in Fair Value		Fair Value at June 30, 2009		
Hedging derivatives:	Classification	Amount	Classification	Amount	Notional
2001-Interest Rate Swap	Deferred Outflow of Resources	$ (1,954,735)	Debt	$ (3,179,656)	$ 33,100,000
2003-Interest Rate Swap	Deferred Outflow of Resources	(1,018,006)	Debt	(1,457,289)	17,616,667
2005A-Interest Rate Swap	Deferred Outflow of Resources	(861,494)	Debt	(1,447,118)	14,345,000
2005B-Interest Rate Swap	Deferred Outflow of Resources	(1,803,568)	Debt	(2,801,881)	28,270,000
				$ (8,885,944)	

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.

As of June 30, 2010, the fair value of the interest rate swap agreement on the 2001 Series Bonds was $(4,763,915), indicating the amount that the Association would be required to pay the Counterparty to terminate the swap agreement.

As of June 30, 2010, the fair value of the interest rate swap agreement on the 2003 Series Bonds was $(2,128,925), indicating the amount that the Association would be required to pay the Counterparty to terminate the swap agreement.

As of June 30, 2010, the fair value of the interest rate swap agreement on the 2005A Series Bonds was $(1,913,322), indicating the amount that the Association would be required to pay the Counterparty to terminate the swap agreement.

As of June 30, 2010, the fair value of the interest rate swap agreement on the 2005 B Series Bonds was $(4,004,262), indicating the amount that the Association would be required to pay the Counterparty to terminate the swap agreement.

Credit Risk - As of June 30, 2010, 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 $46.1 million less the cumulative fair value of $12.8 million. As of June 30, 2010, 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 2001 Bonds, 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.

Georgia Tech Athletic Association

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, 2010 and 2009, the swap had a negative fair value of $10,743,924 and $8,822,285, 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 $13,892,865 and $11,855,250 at June 30, 2010 and 2009, 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, 2010, 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. Component Unit Interest Rate Swap Derivatives – FASB Organizations

Georgia College & State University Foundation

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 below and is included with liabilities in the Statement of Financial Position:

Outstanding Notional	Effective Date	Maturity Date	Underlying Index	Market Value
$ 7,175,000	6/15/2007	10/1/2016	USD/Fixed/4.715	$ (875,098)
$ 25,000,000	6/15/2007	10/1/2024	USD/Fixed/4.715	$ (4,002,826)
$ 69,820,000	6/15/2007	10/1/2033	USD/Fixed/4.715	$ (9,900,242)

There was no portion of the loss that was considered ineffective or excluded from the assessment of hedge effectiveness.

Georgia Tech Foundation, Inc.

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.

During 2008, a third party exercised the swaption related to the 1997A Bonds issued by 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 or September 1, 2027. In June 2010, Facilities issued the 2010B Bonds which refunded the 200RC Bonds as well as provided the funds necessary ($1,560) to terminate the interest rate swap on the 200RC 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%). 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 2001A Bonds. As of June 30, 20 to the total notional amount of the swaption once exercised is $34,455. 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 2001A bonds. The swaption, which had a fair value of $6,457 as of June 30, 2010, is reported as a derivative financial instrument (representing a liability), in the statements of financial position. A loss of ($2,093) was recognized in 2010 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, 2010 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 $13,242 as of June 30, 2010, is reported as a derivative financial instrument (representing a liability), in the statements of financial position. A loss of ($4,197) was recognized in 2010 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. (the 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, 2010 and 2009, the fair value of the Swap represented a liability to the Company in the amount of $18,587,889 and $12,088,347, 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, 2010 and 2009, the Company had posted collateral of $8,100,000 and $2,700,000, respectively, with the Swap counterparty which is included in other receivables in the Company's consolidated balance sheet.

As of June 30, 2010, the Company was exposed to credit risk in the amount of the fair value of the Swap. The Swap counterparty was rated AA by Fitch Ratings and Standard & Poor's and Aaa by Moody's Investors Service as of June 30, 2010. 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, 2010, the prevailing market rate was an aggregate 0.222%, whereas 68% of LIBOR was 0.230%. As of June 30, 2009, the Company paid the counterparty interest at a fixed rate of 3.302% and received interest payments at a variable rate computed as 68% of LIBOR.

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

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, 2010 and 2009, the fair value of those interest rates swaps was a liability of $1,822,723 and $1,389,158, respectively. The Foundation recorded a loss on such swaps of $433,565 and $703,073 for the years ended June 30, 2010 and 2009, respectively, as an adjustment to interest expense.

C. **Component Unit Investment Derivatives -FASB Organizations**

University of Georgia Research Foundation

During 2008, the Real Estate 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. The Real Estate Foundation paid a premium of $75,000 in connection with this agreement. The Real Estate Foundation recorded a loss of $47,923 on the fair value of this derivative for the year ended June 30, 2010. On December 14, 2009, this derivative instrument was terminated and the proceeds of $21,900 have been included in realized and unrealized gains and losses on derivatives in the Statement of Revenues, Expenses and Changes in Net Assets for the year ended June 30, 2010.

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. The Real Estate Foundation paid a premium of $122,000 in connection with this agreement. The fair value of the interest rate cap as of June 30, 2010 was $0, and has been recorded as an asset in accordance with accounting principles generally accepted in the United States of America. The Real Estate Foundation recorded a loss of $1,298 on the fair value of the derivative for the year ended June 30, 2010.

The Real Estate Foundation's derivatives as of June 30, 2010 are presented below:

Business Type	Changes in Fair Value		Effective	Maturity		
Activities	Classification	Amount	Date	Date	Terms	Notional
Cash flow hedges:						
Rate Cap on line of credit	Nonoperating Revenue	$ (1,298)	3/10/2006	12/1/2010	Index: LIBOR 1M+32.5 BP Strike rate 6.0%	$ 12,005,438
Rate Cap on 2001 bonds	Nonoperating Revenue	$ (26,023)	1/31/2008	12/14/2009	Index: SIFMA 1W; Strike rate 4.0%	$ -

All of the Real Estate Foundation's derivatives are treated as investment derivatives since they do not substantially offset changes in cash flows or fair values for the year ended June 30, 2010. There are no cumulative deferred inflows or outflows related to these derivative instruments.

Credit risk
Credit risk is the risk that a counterparty to a derivative instrument will not fulfill its obligations. The Real Estate Foundation does not have a formal policy for managing credit risk for derivatives.

Interest rate risk
Interest rate risk is the risk that changes in interest rates could reduce the value of the derivative instrument. The Real Estate Foundation is exposed to interest rate risk on its interest rate caps. As rates decrease, the value of the derivative decreases.

Termination risk
During the year ended June 30, 2010, the Real Estate Foundation terminated its interest rate cap scheduled to mature in December 2012. A gain of $21,900 was realized upon termination. The Real Estate Foundation is not exposed to termination risk on its derivative instruments.

Rollover risk
The Real Estate Foundation is exposed to rollover risk on hedging derivative instruments that are hedges of debt that mature or may be terminated prior to the maturity of the hedged debt. When these hedging derivative instruments terminate, or in the case of a termination option, if the counterparty exercises its option, the Real Estate Foundation

NOTE 14 – INTERFUND BALANCES AND TRANSFERS

Due To/From Other Funds at June 30, 2010, consist of the following (in thousands):

	Due From Other Funds				
	General Fund	Nonmajor Governmental Fund	Internal Service Funds	Fiduciary Funds	Total Due To Other Funds
Due To Other Funds					
General Fund	$ -	$ -	$ 280,323	$ -	$ 280,323
Higher Education Fund	-	-	71,719	-	71,719
State Employees' Health Benefit Plan	-	-	-	22,544	22,544
Nonmajor Enterprise Funds	-	2,946	-	-	2,946
Internal Service Funds	42	-	24	-	66
Fiduciary Funds	-	-	12	1,188	1,200
Total Due From Other Funds	$ 42	$ 2,946	$ 352,078	$ 23,732	$ 378,798

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, 2010, consist of the following (in thousands):

	Governmental Funds			Proprietary Funds				
	General Fund	Georgia State Financing and Investment Commission	Nonmajor Governmental Funds	Higher Education Fund	State Health Benefit Plan	Internal Service Funds	Fiduciary Funds	Total Transfers Out
Transfers Out:								
General Fund	$ -	$ 1,639	$ 1,255,687	$ 1,966,051	$ 33,300	$ 5,620	$ 2,366	$ 3,264,663
Georgia State Financing and Investment Commission	224,608	-	70,588	-	-	-	-	295,196
Nonmajor Governmental	363,281	-	-	-	-	-	-	363,281
Higher Education Fund	5,150	-	-	-	-	-	-	5,150
Unemployment Compensation Fund	2,375	-	-	-	-	-	-	2,375
Nonmajor Enterprise	-	-	1,482	-	-	-	-	1,482
Internal Service Funds	34,720	-	-	-	-	803	-	35,523
Total Transfers In	$ 630,134	$ 1,639	$ 1,327,757	$ 1,966,051	$ 33,300	$ 6,423	$ 2,366	$ 3,967,670

Transfers are used to move revenues from the fund that statutes require to collect them to the fund that statutes require to expend them and to move unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

NOTE 15 – SEGEMENT IMFORMATION

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.

Condensed State of Net Assets	**Georgia 400 Project**	**GHEFA**
Assets		
Current assets	$ 39,963	$ 2,987
Noncurrent assets	25,578	201,453
Capital assets	1,302	-
Total assets	66,843	204,440
Liabilities		
Current liabilities	12,000	2,456
Noncurrent liabilities	9,422	195,045
Total liabilities	21,422	197,501
Net assets		
Investment in Net Asset, Net of Related Debt	1,302	-
Unrestricted	44,119	6,939
Total net assets	$ 45,421	$ 6,939
Condensed Statement of Revenues, Expenses, and Changes in Net Assets		
Operating revenues (pledged against bonds)	$ 20,805	$ 13,337
Depreciation/amortization expense	(6,397)	(298)
Other operating expenses	(7,105)	(6)
Operating income	7,303	13,033
Nonoperating revenues (expenses)		
Investment income	221	1
Interest expense	(804)	(10,719)
Change in net assets	6,720	2,315
Beginning net assets	38,701	4,624
Ending net assets	$ 45,421	$ 6,939
Condensed Statement of Cash Flows		
Net cash provided by (used in):		
Operating activities	$ 15,270	$ 10,478
Noncapital financing activities	-	(10,502)
Capital and related financing activities	(9,068)	-
Investing activities	(2,118)	43
Net increase (decrease)	4,084	19
Beginning cash and cash equivalents	13,562	272
Ending cash and cash equivalents	$ 17,646	$ 291

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 (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 Georgia Department of Transportation (GDOT) 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 for work performed by a completion contractor. The plaintiff also alleges a claim under the Prompt Payment Act. The Plaintiffs' estimate of damages is 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. A hearing on the motion is scheduled for March 1, 2011.

2. A suit was filed in July 2007 against the Department of Revenue (DOR) asserting a claim for the Port Tax Credit. The plaintiff asserts that its increase in imports through Georgia ports during the tax years 2002 through 2004 inclusive qualifies the plaintiff to receive a credit-based income tax refund. The total credit claimed is in excess of $50 million, although the amount of refund for each taxable year is capped with excess credits carrying forward to subsequent tax years. The State has answered the complaint asserting that the plaintiff does not satisfy the statutory requirements to qualify for the credit. The Superior Court granted summary judgment to the plaintiff on April 2, 2010. DOR filed an appeal with the Georgia Court of Appeals on April 30, 2010. The appeal was docketed with the Court of Appeals on October 18, 2010. The parties filed briefs in November and December 2010 and are awaiting a date for oral argument.

3. A suit was filed in Fulton County Superior Court on December 2, 2005 in which the plaintiff sought a tax refund of $2.3 million from 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 subsequently filed a number of separate but related lawsuits against DOR. In each of the cases, as described below, DOR has asserted the defense of collateral estoppel, as the legal issues in each case involve the same legal issue decided in favor of DOR in the 2005 case.

   a. Filed in Fulton County Superior Court on September 20, 2007: Plaintiff seeks a sales tax refund of $10.1 million. DOR filed a motion to dismiss on May 12, 2008. The issues in this case have been fully briefed and the hearing on the motion to dismiss is scheduled for February 2, 2011.

   b. Filed in Fulton County Superior Court on December 23, 2009: Plaintiff seeks a sales tax refund of $3.2 million. DOR filed an answer on January 20, 2010.

   c. Filed in Fulton County Superior Court on October 8, 2010: Plaintiff seeks a sales tax refund of $3.0 million from DOR. DOR filed an answer on November 11, 2010.

4. A suit was filed on May 6, 2010 in Fulton County Superior Court involving claims for sales tax refunds. The plaintiff asserts two claims of refunds from DOR totaling $5.1 million and claims that its purchases of certain machinery, parts, and explosives were exempt from sales tax under OCGA §48-8-3(34) (manufacturing machinery exemption) and OCGA §48-8-3(35) (industrial materials exemption). These issues were litigated in 2001 (for different tax years) in DeKalb County Superior Court, with a favorable result for DOR. DOR's position is that the appeal is

barred by collateral estoppel. Discovery is scheduled to end February 28, 2011 and DOR anticipates filing a motion for summary judgment by the March 30, 2011 deadline. In the event the case cannot be disposed on motions, it will be set for a September 2011 bench trial.

5. Salary-Related Litigation: Certain State employees and teachers have brought separate law suits challenging steps the State has taken to manage expenditures relative to reduced revenues.

   a. In the case filed on October 14, 2009 in Fulton County Superior Court, several school teachers contend that: (i) a statutory amendment making the payment of monetary incentives to teachers for achieving national certification "subject to appropriations" of funding for such incentive payments and (ii) any subsequent reductions in the appropriations are unconstitutional. On March 1, 2010, the State filed a motion to dismiss, which was granted by the Court on August 24, 2010. On September 13, 2010, the plaintiffs filed a notice of appeal from the order granting the State's motion to dismiss with the Georgia Court of Appeals. The case is currently waiting for docketing with the Court of Appeals.

   b. Another case, filed on October 19, 2009 in Fulton County Superior Court is a putative class action against the heads of various state agencies. The initial action was filed by an unclassified state employee contending that state employees were entitled under state law to a general salary increase of 2½% for the latter half of fiscal year 2009 on the basis of initial appropriations (which were later reduced). The State filed its answer on April 30, 2010. The State's position is that the actions taken by the agency heads were within the scope of their lawful authority, and that the plaintiffs are not entitled to any relief. The complaint was amended on May 28, 2010 to add a classified state employee as a party and to dismiss the Attorney General, the heads of the judicial agencies, and the Governor (in his role as chief executive officer of the State of Georgia) as defendants (the Governor remains a defendant as head of the Office of the Governor), leaving approximately 30 agency executive defendants. The issue of class certification is currently in the discovery phase. A class certification hearing is scheduled for March 16, 2011.

6. A class action lawsuit filed on June 6, 2002 on behalf of 2,200 children in State custody asserted 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 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 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 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. 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 District Court's multiplier portion of its award of attorneys' fees and costs to plaintiffs' counsel, holding that the 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. On November 15, 2010, plaintiffs filed a renewed motion for attorneys' fees and costs with the District Court, in order to attempt to demonstrate that the multiplier amount they seek meets the proper standards. The parties anticipate that further pleadings will be filed prior to the end of calendar year 2010, and that oral argument on the issue will be heard sometime in 2011. 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. In the underlying litigation regarding compliance with the Consent Decree regarding placement of children in DFCS custody for Fulton and DeKalb counties, on November 23, 2010 the District Court entered a stipulated modification of the Consent Decree regarding measurement and

reporting of DHS's performance thereunder.

7. 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 $129.1 million received by the State in 2003; however, the State believes this to be an unlikely outcome. If the State prevails, there would be no reduction in future fund payments. The arbitration proceeding is expected to last well into calendar year 2011.

8. Interstate Water Disputes Among Georgia, Alabama and Florida: The State is involved in water use litigation in two different venues, the United States District Court for the Middle District of Florida (the M.D. Fl. District Court) and the United States District Court for the Northern District of Alabama (the N.D. Al. District Court). These are multiple cases involving the supply of water to certain municipalities in Georgia from certain dams and related reservoirs in North Georgia (Buford Dam/Lake Lanier, Carters Lake, and Lake Allatoona). The Buford Dam is on the Chattahoochee River, which is part of the Apalachicola-Chattahoochee-Flint (ACF) River Basin. This 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. The litigation in the M.D. Fl. District Court is comprised of portions of several lawsuits relating to the operation of Buford Dam/Lake Lanier and is being heard by a multi-district litigation judge. The litigation in the N.D. Al. District Court is currently comprised of claims relating to operation of Carters Lake and Lake Allatoona, both of which are relatively small compared to Lake Lanier. Presently, the litigation in Alabama is on hold to let settlement discussions occur. The litigation in the M.D. Fl. District Court is proceeding. A more detailed discussion of that litigation appears below.

In 1946, the U.S. Congress authorized and funded the construction of the Buford Dam and granted the U.S. Army Corps of Engineers (the Corps) authority to operate Buford Dam and the resulting reservoir, Lake Lanier. Water supply for the Atlanta region was declared to be one of the purposes of the Buford Dam. After the Buford Dam was approved, however, the Corps sometimes referred to water supply for the Atlanta region as an incidental purpose of the project. Construction on the dam commenced in 1950 and lasted approximately six years. In 1958, the U.S. Congress enacted the Water Supply Act of 1958, which allowed the Corps to use its reservoir projects for municipal water supply subject to certain restrictions. During the 1970's the Corps began to enter into water supply contracts with certain Georgia municipalities allocating water from multiple river basin projects, including the Buford Dam, for local water supply. The Corps took the position that this was an appropriate use. However, when Atlanta and other surrounding communities sought additional water in the late 1980's, the Corps prepared a draft post authorization change report as a possible part of the process of granting the request. In 1990, Alabama initiated litigation against the Corps in the N.D. Al. District Court alleging, among other claims, that the Corps was supplying water to Georgia municipalities in violation of: the authorizing legislation for certain dams in the ACF and ACT basins; the Water Supply Act of 1958; and the National Environmental Policy Act (the litigation filed in the N.D. Al. District Court, in which Florida and Georgia intervened, hereinafter referred to as the Alabama Case).

Following almost twenty years of litigation and negotiations involving the use of water among various private entities and governmental entities in Georgia, Alabama, and Florida, multiple cases involving the use of the waters of the Buford Dam were referred to the M.D. Fl. District Court, sitting as a multi-district litigation court, for resolution. The main components of such litigation are: (1) two cases involving the rights of Georgia municipalities to use water from Lake Lanier (the "Georgia I" case, which involves an appeal from the denial of Georgia's water supply request submitted to the Corps in 2000, and the portion of the Alabama Case which involves Alabama and Florida's objection to the Corps' supplying water to the Atlanta region from the Buford Dam); (2) a case involving the right of the Southeastern Federal Power Customers Association to be compensated for economic loss of hydroelectric power production due to the increasing use of water from Lake Lanier by Georgia municipalities; and (3) a case dealing with the quantity of water that the Corps must release from Lake Lanier to support the habitat of certain endangered species in the Apalachicola River in Florida, in that current releases did not meet minimum flow requirements, in purported violation of the Endangered Species Act (the "ESA Litigation"). The portion of the Alabama Case dealing with water supplied from dam projects outside the ACF basin was left with the N.D. Al. District Court.

On July 17, 2009, the M.D. Fl. District Court issued an order making the following findings in the Georgia I case (the "Georgia I Order"): (1) water supply is not an authorized purpose of the Buford Dam, i.e., Lake Lanier was not built to provide for water supplies to municipalities in Georgia; (2) the quantity of water usage that would be authorized under a 1989 draft post authorization change in use report prepared by the Corps would require approval by the U.S. Congress; (3) the present level of water usage from Lake Lanier by Georgia municipalities violates the Federal Water Supply Act of 1958 and therefore is not authorized; and (4) the request to the Corps made in 2000 by Georgia, for additional water from Lake Lanier also would violate the Federal Water Supply Act of 1958, and would be unauthorized. The Georgia I Order allows Georgia municipalities to continue using water from Lake Lanier for three years at current water usage levels to allow time for a Congressional or other settlement, after which, in the absence of such settlement, water usage from Lake Lanier (in the form of withdrawals from the lake and releases for downstream withdrawal) must revert to the "baseline" operation of the mid-1970's, with an exception for withdrawal of 10 million gallons of water per day for the cities of Buford and Gainesville, Georgia. In September 2009, the State of Georgia and Atlanta area municipalities that depend on the Buford Dam for water supply filed an appeal and requested that the M.D. Fl. District Court enter final judgment in Georgia I on the theory that all issues in such case were resolved by the M.D. Fl. District Court's July 17, 2009 order. The M.D. Fl. District Court declined the request for the entry of final judgment. Alabama and Florida, as opposing parties, contended that the Georgia I Order was not appealable and asked the Eleventh Circuit Court of Appeals to dismiss Georgia's appeal. On January 20, 2010, the Eleventh Circuit denied Alabama and Florida's motion to dismiss Georgia's appeal of the Georgia I Order. The Eleventh Circuit, in a unanimous ruling, stated that the Georgia I Order constitutes a final judgment and can be appealed. Furthermore, the Eleventh Circuit accepted pendent jurisdiction and review of the entire July 17, 2009 M.D. Fl. District Court order. Briefs have been filed and oral argument is scheduled for March 7, 2011. Possible outcomes include a reversal of the July 17, 2009 M.D. Fl. District Court order.

In the ESA Litigation, Alabama and Florida claimed that a Corps revised interim operating plan for the release of water from Jim Woodruff Dam at the Florida-Georgia border into the Apalachicola River would place certain endangered species in jeopardy and result in modification of critical habitat of those species. An analysis by the United States Fish and Wildlife Service found that the revised interim operating plan would not jeopardize the endangered species in question. On July 21, 2010, the M.D. Fl. District Court dismissed the Alabama and Florida ESA Litigation claims as without merit. Florida filed a notice of appeal with the Eleventh Circuit on September 20, 2010 and its brief is due on April 1, 2011.

An estimation of the ultimate financial impact of this litigation is not known at this time but could result in significant costs to the State.

9. Department of Behavioral Health and Developmental Disabilities (BHDD) Psychiatric Hospitals: In January 2009, the Department of Justice (DOJ) filed a complaint in the United States District Court for the Northern District of Georgia 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 significant improvements 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 thereto filed a new complaint under the Americans with Disabilities Act in the United States District Court for the Northern District of Georgia. 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 regarding the State's treatment of certain persons with developmental disabilities, focusing on providing treatment in community settings rather than state hospitals (the ADA Settlement). Pursuant to the ADA Settlement Agreement, the motion for preliminary injunction was withdrawn and the action was conditionally terminated, 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 BHDD but cannot yet be readily estimated.

BHDD'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.

BHDD continues to transition developmentally disabled persons and persons with behavioral 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. All of the facilities are increasing staffing levels for licensed professionals and direct care staff.

10. On an ongoing basis, the Georgia Department of Transportation is the condemnor in numerous pending property condemnation lawsuits which are at various stages of procedure. It is currently not reasonable to evaluate the potential loss on a case by case basis. Based on historical trend analysis, it is reasonably possible that certain of the numerous lawsuits will be found in favor of the condemnees and that GDOT will be bound to pay additional sums awarded by the judgments over the amount estimated by GDOT and paid into court when GDOT filed the condemnation. It is believed additional awards of the pending condemnation lawsuits, in the aggregate, could be between $65 million and $80 million.

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 future 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 approximately $154.4 million at the time. The GSFA is no longer servicing these loans; however the GSFA's guarantee is still in effect for these prior serviced loans until August 12, 2028. The GSFA is responsible for a part of the $99.6 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.

The pledged receivables of $14.0 million that existed on the prior year GSFA statement of net assets ceased to exist when the GSFA repurchased, in June 2010, all the underlying student loans of the pledged receivables. Therefore, the obligation of repurchase related to the pledged receivables carried over from the prior year was removed.

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 and Finance Authority (GHFA) business operations include significant lending and borrowing arrangements. Borrowings are made in the form of bonds. Proceeds from these bonds are mainly used to finance home mortgage loans to qualifying borrowers. The ultimate source of repayment of these borrowings and the related interest is return of principal and interest on the loans. GHFA invests proceeds from borrowings prior to their use. It also invests funds from repayments received on its loans. These investments usually consist of various debt securities. GHFA generally does not invest in equity securities. A majority of the GHFA's loans are insured by the Federal Housing Administration. A minor portion of its loans are not insured. GHFA is subject to credit risks related to its cash balances and its investments in debt securities. It is also subject to the risk that the underlying value of the collateral on its uninsured loans declines. Currently, GHFA has cash balances with financial institutions that are either insured by FDIC or collateralized by government securities held at Georgia Bankers Bank and the State of Georgia's collateral pool. However, FDIC insurance is limited to $250 thousand per depositor. GHFA has cash balances at June 30, 2010 of $18.8 million in excess of FDIC insured limits. GHFA has investments in debt securities of $246.3 million. If GHFA were to incur significant losses in connection with the above cash balances and debt investments, it would impair GHFA's ability to service its debt obligations as they become due.

Additionally, as described above, GHFA has uninsured loans of $14 million as of June 30, 2010. 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 as a result of a general economic decline nationwide. One impact of these conditions has been a decline in housing values. GHFA has incurred a higher rate of loss on foreclosed loans as a result of the impact of their 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. If the economy continues to decline and, as a result, GHFA experiences a dramatic increase in foreclosures, it is possible that the combination of such an increase combined with lower housing prices could result in increased losses of loan assets that could have adverse impacts on GHFA's ability to repay its outstanding bonds.

At June 30, 2010, the Georgia Development Authority (GDA) had transferred and assigned mortgage loans totaling $33.5 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.

The liquidity crisis that originally was linked principally to the sub-prime lending markets has spread to other corners of the credit markets in the U.S. and internationally. It is not possible at this time to predict the full impact or duration of the existing illiquid credit market conditions. The unstable market conditions and the resulting uncertainties contribute to additional risks associated with certain significant credit facilities maturing during the next year as well as future marketability and collectability of the loans to farmers program, especially in the poultry and peanut growth segments. GDA management continues to monitor the status of its maturing loans, but there is no assurance the loan agreements will be extended or that replacement financing will be available.

D. Pollution Remediation

Component Units

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, 2010, 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, 2010, the undisbursed balance remaining on these agreements approximated $1.3 billion.

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, 2010, the Department of Transportation had contractual commitments of $2.5 billion for construction of various highway projects. Funding of these future expenditures is expected to be provided from federal grants, motor fuel tax funds, general obligation bond proceeds, and debt instruments issued by the State Road and Tollway Authority.

The Georgia Technology Authority has significant commitments to IBM and AT&T through master service agreements. The $1.0 billion IBM master contract was effective April 1, 2009, is an eight year contract with two optional years, and has a remaining balance of $858.5 million as of June 30, 2010. The $481.1 million AT&T master contract was effective May 1, 2009, is a five year contract with two optional years, and has a remaining balance of $410.8 million as of June 30, 2010.

The Georgia Department of Defense has a military construction contract for the Georgia National Guard Joint Force headquarters building. The balance of federal funds to be expended for this project is about $20.6 million.

Commitment to Fund Teacher Salaries

The State has historically accrued a payable to local education authorities (LEA) for salaries earned by teachers for scholastic years ended August 31 and owed by the LEAs. For the fiscal year ended June 30, 2010, an accrual was recorded for approximately $868 million. This payable, however, is included in the appropriation bill effective July 1, 2010 and therefore cannot be paid prior to July 1, 2010.

Component Units

Georgia Ports Authority Contractual Commitments

During the fiscal year ended June 30, 2010, the Georgia Ports Authority (GPA) entered into an agreement with a third party to transfer ownership of approximately 119 acres sometime in the future, but not beyond December 31, 2019. Contingent on three conditions being satisfied, the third party has the opportunity to purchase the respective property at varying levels of investment. The subject property is expected to have a manufacturing facility constructed and operating by December 31, 2016 or earlier. The three conditions that are required to be satisfied include: a) as of December 31, 2016, the third party has created and employed not less than 350 new employees (which is 70% of the total job requirement); b) from December 31, 2016 through December 31, 2019, the third party has maintained 350 employees, as demonstrated by the average monthly employee count over the 36 months during the period; and c) as of December 31, 2016, the company has invested not less than $227.5 million in the project (70% of the total investment) or, in the alternative, if the number of new employees is over 350 as of December 31, 2016, then the percentage of jobs may be averaged with the percentage of investment, and if the combined average is 70% or greater, the investment requirement shall have been met. The agreement also contains a provision that if the three conditions are satisfied early then the property can be purchased after the 36-month maintenance period. Depending on whether the third party meets the three conditions, and to what extent the third party meets the requirements, then the third party can still purchase the plant site, but at a sliding scale of value from $10.00 (whole dollars) up to $11.9 million. GPA management has determined that sufficient information does not currently exist to determine the potential sales price or the resulting gain or loss on sale of the respective property relative to this possible transfer of ownership.

University System Foundations

The Georgia State University Foundation, Inc. has future commitments with various limited partnership agreements with investment managers of real estate investment trusts and venture capital funds for the endowment portfolio. Payments under the various partnership agreements are made over a period of years based on specified capital calls by the respective partnerships. The purpose of these agreements is to provide endowment funds and nonprofit organizations the opportunity to invest in private limited partnerships, which in turn, make venture capital investments primarily in emerging growth companies, international private equity investments and in equity securities, warrants or other options that are generally not actively traded at the time of investment with the objective of obtaining long-term growth of capital. Capital calls are drawn from other liquid assets of the endowment investment pool as part of the asset allocation process. Investment commitments for the year ended June 30, 2010 totaled $8.4 million.

As the sole member of the Real Estate Foundation, the University of Georgia Research Foundation is guarantor on up to $50 million on a revolving credit agreement maintained by the Real Estate Foundation. As of June 30, 2010, current borrowings are all under rental agreements with the University so the Research Foundation’s guarantee is not applicable. The Real Estate Foundation’s revolving line of credit expires on November 30, 2010. In September 2010, the Real Estate Foundation received proposals from banks for a replacement line of credit that would go into effect upon the expiration of the current line of credit. After reviewing the proposals, the Board voted to renew the revolving line of credit with the current provider in the amount of $50 million for a five year period beginning December 1, 2010.

The University of Georgia Athletic Association has authorized commitments for construction in an aggregated amount of approximately $23.5 million at June 30, 2010.

NOTE 17 - SUBSEQUENT EVENTS

Primary Government

A. Long-term Debt Issues

General Obligation Bonds Issued
On October 6, 2010 the State sold General Obligation Bonds in the amount of $653.9 million for delivery on or about October 27, 2010:

Series	Amount (in millions)
2010B	$ 170.2
2010C-1	84.9
2010C-2	233.5
2010C-3	136.5
2010C-4	28.8
Total	$ 653.9

Proceeds of the bonds will be used primarily to fund new K-12 schools, higher education facilities, public safety projects and other crucial infrastructure.

Net interest costs on the Series 2010B and 2010C Series bonds ranged from 0.97 percent for five-year tax exempt bonds to 2.14 percent for 20-year bonds. The State designated the $233.5 million from Series 2010C-2 as Build America Bonds which carry a 35 percent interest rate subsidy from the US Treasury under the American Recovery and Reinvestment Act. The State designated the $136.5 million from Series 2010C-3 as Recovery Zone Economic Development Bonds which carry a 45 percent interest rate subsidy from the US Treasury under the American Recovery and Reinvestment Act. The State designated the $28.8 million from Series 2010C-4 as Qualified School Construction Bonds which carry a 100 percent interest rate subsidy from the US Treasury under the Hiring Incentives to Restore Employment Act.

Revenue Bonds Issued
Subsequent to year-end the Georgia Higher Education Facilities Authority issued revenue bonds (Series 2010A) with a face amount of $94.2 million from which it loaned proceeds to the USG (University System of Georgia) Real Estate Foundation III, LLC.

Toll Revenue Bonds
The State Road and Tollway Authority issued Toll Revenue Bonds in the amount of $40 million on December 1, 2010 (Series 2010 – Georgia 400 Project). The interest rate on these bonds is based on the LIBOR swap rate. The bonds were sold as a private placement and had an estimated total debt service savings of about $300 thousand over a conventional public offering. The All-In-TIC (True Interest Cost) rate for the private placement is 2.90% compared to 3.10% for a conventional public offering. In a separate, but related, action the Authority defeased $8.7 million of its previously outstanding Guaranteed Revenue Refunding Bonds (Series 1998) by escrowing funds to pay off the remaining debt service that totals $9.1 million for the one remaining principal payment and two interest payments.

B. Retiree Benefits

On July 21, 2010 the Teachers Retirement System adopted a “smoothed valuation interest rate” methodology for the June 30, 2009 actuarial funding valuation. The new funding method will be used for calculating contributions beginning with the fiscal year ending June 30, 2012.

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. During the period of July 1, 2010 through December 15, 2010, the State of Georgia borrowed an additional $117 million from the U. S. Treasury to pay State unemployment benefits, bringing total borrowings for this purpose to $533 million. Congress provided a temporary waiver of interest accrual on such borrowings as part of the Federal stimulus program. However, unless extended, the waiver will expire in January 2011, and interest will thereafter accrue at a rate to be announced (prior to the temporary waiver, the 2009 interest rate was 4.6375% per annum). 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 Commissioner of Labor has the statutory authority to adjust employer premiums upward slightly from current levels for unemployment insurance taxes in 2011. 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

The Georgia Housing and Finance Authority issued a single family mortgage revenue bond (Series 2010A/2009C, C-1) for approximately $68.2 million. The Authority closed this bond issue in July 2010. 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 July 13, 2010, the Development Authority of Cobb County issued $66.8 million in revenue bonds and loaned the proceeds to Kennesaw State University (KSU) Foundation. The bonds were issued to repay an interim loan incurred to finance the construction of the sports and recreational park. The KSU Foundation's existing $22 million line of credit was paid with these bond proceeds.

In August 2010, Georgia Tech Facilities, Inc. issued $5.4 million in Series 2010C Revenue Bonds. The proceeds of the bonds are to be used to finance the renovations and improvements for the Academy of Medicine building as well as certain costs of issuance and capitalized interest.

B. Initiation of Significant Commitments

The Jekyll Island State Park Authority (Park Authority) entered into contracts during the second quarter of fiscal year 2011 to demolish the old Jekyll Island Convention Center and construct a new center. The contracts amount to about $31 million and will be funded from $50 million of bond proceeds provided by the Georgia State Financing and Investment Commission. The Park Authority, as lessor, also entered into a 200-room full service hotel lease, expiring in January 2089. The lessee will construct and manage the new hotel.

C. Related Party Securitization

The Georgia Environmental Finance Authority (GEFA) Board authorized the pursuit of a securitization transaction which could result in the sale of loans from GEFA to a wholly owned subsidiary, the Georgia Environmental Loan Acquisition Corporation (GELAC), which would issue bonds backed by those loans for the purpose of transferring approximately $288 million to the State treasury during fiscal year 2011. It is anticipated the net assets of the Georgia Fund, as presented within the GEFA financial statements, will be impacted by this sale in a proportionate amount. No federal programs will be affected by this loan sale. Subsequent to year end, GEFA authorized a loan to GELAC in the amount of $100,000 for the administrative purposes of executing the loan sale. This loan is expected to be repaid upon the completion of the securitization transaction.

D. Other Subsequent Events

On July 1, 2010, Medical College of Georgia (MCG) Health, Inc. (the Company) entered into the Joint Operating Agreement with the Physicians Practice Group Foundation (PPG) and the newly formed MCG Health Systems, Inc. (the System), a separately organized non-profit corporation formed for the purpose of achieving joint coordination and planning among the Company, PPG, and MCG. Under the Joint Operating Agreement, the System will approve the strategic plans and budgets of the Company and PPG, may provide shared services to the Company and PPG, and has the ability to amend or cause to be amended the Affiliation Agreement and other related party agreements among Regents, MCG, PPG, and the Company. In addition, on July 1, 2010, the Articles of Incorporation of the Company, the Bylaws of the Company, the Affiliation Agreement and the other related party agreements between the Company and Regents were amended to effectively put the System in a governance position between the Company and Regents and provide to the System many of the rights previously held by Regents. The Company will continue to be a component unit of Regents, as defined by provisions of Governmental Accounting Standards Board (GASB) Statement No. 14, “The Financial Reporting Entity,” due to Regent’s ability to significantly influence the programs and activities of the Company through the System.

On August 16, 2010, the Georgia State University Foundation purchased certain land and buildings from 175 Piedmont Avenue Holdings, LLC for $19 million and then simultaneously sold the property on the same day to the Board of Regents for approximately the same price.

On December 11, 2010, the State Properties Commission approved the purchase of 10,015 acres of Oaky Woods wilderness in Middle Georgia for $28.7 million.

REQUIRED SUPPLEMENTARY INFORMATION


STATE OF GEORGIA
CONSTITUTION
WISDOM
JUSTICE
MODERATION
1776

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 -	7/1/2007 (1)	$ -	$ 1,985,200	$ 1,985,200	0.0%	$ 2,201,804	90.2%
Retiree Health Benefit	7/1/2008	290	3,258,200	3,257,910	0.0%	2,372,385	137.3%
	7/1/2009	10,566	3,129,508	3,118,942	0.3%	2,399,532	130.0%

(1) The allocation and transfer of assets to the Fund took place subsequent to the July 1, 2007 actuarial valuation.

State of Georgia

Required Supplementary Information
Budgetary Comparison Schedule
Budget Fund
For the Fiscal Year Ended June 30, 2010
(dollars in thousands)

	Original Appropriation	Amended Appropriation	Final Budget	Actual	Variance
Funds Available					
State Appropriation					
State General Funds	$ 16,240,488	$ 14,476,793	$ 14,476,793	$ 14,405,618	$ 71,175
Brain and Spinal Injury Trust Fund	2,066	2,066	2,066	2,117	(51)
Care Management Organization F	42,525	42,525	42,232	42,232	-
Revenue Shortfall Reserve for K-12 Needs	-	167,667	167,667	167,667	-
Nursing Home Provider Fees	122,529	122,529	126,449	126,449	-
Lottery Funds	938,089	1,044,666	1,044,666	1,044,666	-
State Motor Fuel Funds	913,000	910,421	910,421	968,336	(57,915)
Tobacco Funds	310,976	307,986	307,986	308,194	(208)
State Funds - Prior Year Carry-Over	-	-	-	-	-
State General Fund Prior Year	-	-	134,096	161,624	(27,528)
Brain and Spinal Injury Trust Fund - Prior Year	-	-	1,444	708	736
State Motor Fuel Funds - Prior Year	-	-	352,383	357,857	(5,474)
Tobacco Funds - Prior Year	-	-	76	-	76
Federal Funds	-	-	-	-	-
CCDF Mandatory & Matching Funds	94,361	93,381	77,807	81,404	(3,597)
Child Care and Development Block Grant	136,015	167,660	121,496	104,100	17,396
Community Mental Health Services Block Grant	13,131	13,715	17,447	17,244	203
Community Services Block Grant	17,398	17,312	17,259	20,111	(2,852)
Federal Highway Administration [Highway Planning and Construction	1,242,517	1,242,517	1,257,998	887,391	370,607
Foster Care Title IV-E	87,079	90,893	77,143	78,414	(1,271)
Low-Income Home Energy Assistance	24,907	24,628	101,208	100,819	389
Maternal and Child Health Services Block Grant	20,367	20,595	25,743	15,074	10,669
Medical Assistance Program	6,085,197	5,171,253	5,621,018	5,417,614	203,404
Prevention and Treatment of Substance Abuse Block Grant	59,700	59,274	60,905	32,745	28,160
Preventive Health and Health Services Block Grant	4,404	3,056	3,839	3,666	173
Social Services Block Grant	54,994	54,771	94,899	79,281	15,618
Children's Health Insurance Program	312,626	241,824	244,145	226,688	17,457
Temporary Assistance for Needy Families	342,225	342,225	450,384	402,324	48,060
TANF Transfer to SSBG	25,800	25,800	-	-	-
TANF Unobligated Balance	37,349	33,431	-	8,883	(8,883)
Federal Funds Not Specifically Identified	3,303,538	4,136,038	3,947,130	3,832,795	114,335
American Recovery and Reinvestment Act of 2009	-	-	-	-	-
Child Care and Development Block Grant	-	-	80,401	79,381	1,020
Community Services Block Grant	-	-	26,896	26,629	267
Federal Highway Administration [Highway Planning and Construction	-	-	843,708	798,785	44,923
Foster Care Title IV-E	-	-	3,319	3,397	(78)
Medical Assistance Program	-	659,956	769,449	725,555	43,894
Federal Funds Not Specifically Identified	661,430	-	944,125	874,895	69,230
State Fiscal Stabilization Fund - Education State Grants	-	919,668	957,394	957,394	-
State Fiscal Stabilization Fund - Governmental Services	-	140,260	140,260	140,260	-
Emergency Contingency Fund for TANF State Program	-	165,371	60,000	51,271	8,729
Federal Recovery	-	-	1,997	3,937	(1,940)
Other Funds	7,527,471	7,925,415	8,943,958	8,498,049	445,909
Total Funds Available	38,620,182	38,623,696	42,456,207	41,053,574	1,402,633
Expenditures					
Georgia Senate	10,514	9,619	9,939	9,063	876
Georgia House of Representatives	18,303	16,755	17,660	16,232	1,428
Georgia General Assembly Joint Offices	9,837	8,530	9,149	7,964	1,185
Audits and Accounts, Department of	32,380	29,846	29,846	29,231	615
Appeals, Court of	13,602	12,667	12,702	12,701	1
Judicial Council	17,282	16,163	19,115	17,195	1,920
Juvenile Courts	7,026	6,893	6,893	7,185	(292)
Prosecuting Attorneys	59,211	57,333	69,708	68,875	833
Superior Courts	60,499	58,006	58,006	57,422	584
Supreme Court	8,026	7,592	7,873	7,826	47
Accounting Office, State	14,912	16,312	17,803	16,727	1,076
Administrative Services, Department of	152,658	156,740	321,638	191,716	129,922
Agriculture, Department of	55,144	48,940	51,435	51,287	148
Banking and Finance, Department of	12,356	11,246	11,246	11,078	168
Behavioral Health and Developmental Disabilities, Department of	1,133,714	976,383	1,021,942	982,910	39,032
Community Affairs, Department of	205,725	201,687	239,293	231,501	7,792
Community Health, Department of	12,300,623	12,138,660	12,619,815	11,768,698	851,117
Corrections, Department of	1,130,556	1,096,416	1,140,641	1,113,444	27,197

State of Georgia

Required Supplementary Information
Budgetary Comparison Schedule
Budget Fund
For the Fiscal Year Ended June 30, 2010
(dollars in thousands)

	Original Appropriation	Amended Appropriation	Final Budget	Actual	Variance
Expenditures					
Defense, Department of	39,823	39,458	84,316	83,958	358
Driver Services, Department of	62,096	56,549	58,143	57,700	443
Early Care and Learning, Department of	488,236	490,078	486,310	486,060	250
Economic Development, Department of	33,169	30,110	33,240	33,174	66
Education, Department of	9,464,200	9,670,766	9,760,747	9,639,362	121,385
Employees' Retirement System of Georgia	26,463	26,309	26,523	25,141	1,382
Forestry Commission, State	48,700	44,766	44,240	44,176	64
Governor, Office of the	96,233	118,941	245,943	196,759	49,184
Human Services, Department of	1,700,100	1,921,181	1,935,482	1,802,799	132,683
Insurance, Department of	18,373	16,759	16,639	16,278	361
Investigation, Georgia Bureau of	128,825	116,570	148,407	147,931	476
Juvenile Justice, Department of	331,313	313,528	311,031	295,724	15,307
Labor, Department of	424,401	419,081	546,978	523,154	23,824
Law, Department of	54,835	53,610	62,960	55,742	7,218
Natural Resources, Department of	275,057	250,490	312,250	280,156	32,094
Pardons and Paroles, State Board of	54,223	50,862	52,472	51,384	1,088
Properties Commission, State	1,038	926	1,300	1,297	3
Public Defender Standards Council, Georgia	41,489	38,704	71,081	66,509	4,572
Public Safety, Department of	162,385	163,107	185,395	169,079	16,316
Public Service Commission	10,406	9,420	9,853	9,835	18
Regents, University System of Georgia	5,306,102	5,300,264	6,187,609	5,743,829	443,780
Revenue, Department of	127,939	123,544	146,474	142,091	4,383
Secretary of State	35,811	32,640	34,798	33,540	1,258
Soil and Water Conservation Commission	8,754	7,302	7,846	7,751	95
State Personnel Administration	11,321	11,321	17,469	14,796	2,673
Student Finance Commission and Authority, Georgia	626,714	737,067	736,356	697,848	38,508
Teachers' Retirement System of Georgia	27,481	28,581	28,581	26,090	2,491
Technical College System of Georgia	599,078	608,290	675,403	622,321	53,082
Transportation, Department of	1,981,653	1,968,280	3,368,021	2,533,711	834,310
Veterans Service, Department of	41,286	40,786	38,063	37,477	586
Workers' Compensation, State Board of	19,520	19,670	19,796	14,726	5,070
Office of Treasury and Fiscal Services	1,130,790	1,044,948	1,137,777	1,011,138	126,639
Financing and Investment Commission, Georgia State	-	-	-	3,266	(3,266)
Total Expenditures	38,620,182	38,623,696	42,456,207	39,475,857	2,980,350
Excess of Funds Available over Expenditures	$ -	$ -	$ -	$ 1,577,717	$ (1,577,717)

State of Georgia

Required Supplementary Information
Budget to GAAP Reconciliation
For the Fiscal Year Ended June 30, 2010
(dollars in thousands)

	General Fund
Sources/Inflows of Resources	
Summary	
Actual amounts (budgetary basis) "Total Funds Available" from the budgetary comparison schedule	$ 41,053,574
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.	(7,211,491)
Revenues of nonbudgeted funds included within the State's reporting entity, and shown in the General Fund for financial reporting purposes.	16,441,249
State appropriations revenues are budgetary resources, but are netted with the State's treasury disbursements for GAAP purposes.	(17,006,873)
Basis Differences:	
Accrual of taxpayer assessed receivables and revenues.	478,041
Fund balance adjustments are not inflows of budgetary resources, but affect current year revenues for GAAP reporting purposes.	3,741
Prior Year Reserves Available for Expenditure are included in Funds Available, but are not revenues for GAAP reporting purposes.	(1,194,320)
Revenues from intrafund transactions are budgetary resources, but are not revenues for GAAP reporting purposes.	(322,125)
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.	(454,026)
Transfers from other funds are inflows of budgetary resources, but are not revenues for financial reporting purposes.	(124,990)
Revenue reported for nonbudgetary food stamp program.	2,457,273
Some federal financial assistance is reported as revenue when received in the Budget Fund, but these funds are not earned at year end, and are shown as deferred revenue for GAAP purposes.	41,512
Other net accrued receivables and revenues.	(2,162)
Total Revenues (General Fund) as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Funds	$ 34,159,403

Required Supplementary Information
Budget to GAAP Reconciliation
For the Fiscal Year Ended June 30, 2010
(dollars in thousands)

Uses/Outflows of Resources	General Fund
Summary	
Actual amounts (budgetary basis) “Total Expenditures” from the budgetary comparison schedule	$ 39,475,857
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.	108,559
Expenditures of Budgeted Funds for organizations not reported in the General Fund.	(9,192,070)
Basis Differences:	
Accrual of teacher salaries not included in current budget year.	(32,602)
Capital lease acquisitions are not outflows of budgetary resources, but are recorded as current expenditures and other financing sources for GAAP reporting.	6,201
Change in expenditure accrual for nonbudgetary Medicaid claims	44,125
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.	127,944
Expenditures from intrafund transactions are budgetary outflows, but are not expenditures for GAAP reporting purposes.	(329,797)
Expenditures reported for nonbudgetary food stamp program.	2,457,273
Fund balance adjustments are not outflows of budgetary resources, but affect current year expenditures for GAAP reporting purposes.	(491,684)
Transfers to other funds are outflows of budgetary resources, but are not expenditures for GAAP reporting purposes.	(1,263,540)
Other net accrued liabilities and expenditures.	21,639
Total Expenditures (General Fund) as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Funds	$ 30,931,905

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

Budgetary Reporting (continued)

(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, 2010, 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 2010 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.

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<u>APPENDIX C</u>

SUMMARY OF INDENTURES

This Appendix C has been prepared by Sutherland Asbill & Brennan LLP, Atlanta, Georgia, Bond Counsel.

The 2001 Indenture and the 2003 Indenture are substantially similar, but separate, instruments. The following is a summary, which does not purport to be comprehensive or definitive, of certain provisions of each Indenture. Other provisions of the Indenture are described in the Official Statement under the caption **"SECURITY AND SOURCES OF PAYMENT FOR THE BONDS - Trust Estate."** Reference is made to each Indenture in its entirety for a complete recital of the detailed provisions thereof, copies of which are available from the Authority upon request.

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APPENDIX C

SUMMARY OF THE INDENTURES

General

The 2001 Indenture Bonds and the 2003 Indenture Bonds are not cross-collateralized or cross-defaulted. The 2001 Indenture Bonds are not secured by a lien on the Trust Estate securing the 2003 Indenture Bonds, and the 2003 Indenture Bonds are not secured by a lien on the Trust Estate securing the 2001 Indenture Bonds. The 2001 Indenture and the 2003 Indenture are substantially similar, but separate, contracts, and each Trust Estate, the Pledged Revenues under each Indenture, and the funds established under each Indenture, are separate and distinct and separately secure the Bonds issued under such Indenture.

Because the 2001 Indenture and the 2003 Indenture are substantially similar, a single summary applicable to both Indentures is provided in this Appendix C. Except where specifically noted, the definitions and summaries of certain provisions of the Indentures contained in this Appendix C describe defined terms used in, and provisions of, each Indenture.

Certain Definitions

In addition to certain terms defined in the Official Statement, the following terms are used in this Appendix C and in the Official Statement with the meanings as follows:

"Act" means the State Road and Tollway Authority Act, codified, as amended, at O.C.G.A. § 32-10-60 *et seq.*

"Additional Parity Bonds" means any additional parity bonds issued in accordance with the provisions of the 2001 Indenture with respect to the Series 2011A Bonds and the 2003 Indenture with respect to the Series 2011B Bonds described below under the caption "**Revenues and Funds—***Additional Parity Bonds*."

"Agent Member" means a member of, or participant in, the Securities Depository.

"Authorized Authority Representative" means the Chairman of the Authority or any other individual designated to the Trustee by a certificate signed by an authorized officer of the Authority to represent the Authority.

"Authorized Denominations" means, with respect to the Bonds, $5,000 and any integral multiple thereof, and means, with respect to any Additional Parity Bonds, $5,000 and any integral multiple thereof unless a different Authorized Denomination is specified in the Supplemental Indenture authorizing the issuance of such Additional Parity Bonds.

"Beneficial Owner" means the owner of a beneficial interest in any Bonds issued in Book Entry Form.

"Book-Entry Form" or "**Book-Entry System"** means a form or system, as applicable, under which (i) the ownership of beneficial interests in such Bonds and bond service charges may be transferred only through book-entry and (ii) physical Bonds in fully registered, certificated form are registered only in the name of a Securities Depository or its nominee as holder, with physical Bonds immobilized in the custody of a Securities Depository.

"Bond Counsel" means an attorney or firm of attorneys selected by the Authority of national recognition experienced in the field of municipal bonds whose opinions are generally accepted by purchasers of municipal bonds.

"Bonds" means collectively the unrefunded Series 2001 Bonds, the unrefunded Series 2003 Bonds, the Series 2011A Bonds and the Series 2011B Bonds and any Additional Parity Bonds.

"Business Day" means any day excluding Saturday, Sunday or any day which shall be in Atlanta, Georgia, or New York, New York, as specified, a legal holiday or a day on which banking institutions or dealers who are members of the National Association of Securities Dealers, Inc., are authorized or obligated by law or administrative order to close.

"Bondholder" or "**holder of Bonds**" or **"holders"** or **"registered owners"** means the Person(s) in whose name(s) any Bond or Bonds are registered in accordance with the Indentures.

"Code" means the Internal Revenue Code of 1986, as amended, and any temporary, final or proposed Treasury Regulations relating thereto.

"Common Reserve Fund" means the State of Georgia Guaranteed Revenue Debt Common Reserve Fund created pursuant to pursuant to Article VII, Section IV, Paragraph III(b) of the Constitution of Georgia of 1983.

"Counsel" means an attorney-at-law or firm thereof (who or which may be counsel for the Authority).

"Extraordinary Services of the Trustee" and **"Extraordinary Expenses of the Trustee"** mean all services rendered and all expenses incurred by the Trustee under the Indentures, including reasonable counsel fees and expenses, other than Ordinary Services of the Trustee and Ordinary Expenses of the Trustee.

"Fiscal Year" when used with respect to the Authority, means the period commencing on July 1 of each year and ending on June 30 of the following calendar year, or such other period as may be designated by the Authority.

"Fitch" means Fitch IBCA, Inc.

"Fund" means any fund established pursuant to the provisions of the Indentures described below under the caption "**Revenues and Funds**."

"Guarantee Fund" means the respective fund of such name established pursuant to the provisions of the related Indenture described below under the caption "**Revenues and Funds—***Creation of Funds*."

"Guaranteed Revenue Bonds" means revenue debt guaranteed by the State pursuant to Article VII, Section IV, Paragraph I(f) of the Constitution of Georgia.

"Indentures" means collectively the 2001 Indenture and the 2003 Indenture, as amended or supplemented.

"Investment Securities" means and include such securities that are permitted by law for the investment of the Authority's funds.

"Moody's" means Moody's Investors Service, Inc.

"Ordinary Services of the Trustee" and **"Ordinary Expenses of the Trustee"** mean those reasonable services rendered and those reasonable expenses incurred by the Trustee in the performance of its duties under the Indentures of the type ordinarily performed by corporate trustees under like indentures, including reasonable counsel fees and expenses.

"Original 2001 Indenture" that certain Trust Indenture, dated as of December 1, 2001 between the Authority and First Union National Bank, as predecessor to the Trustee.

"Original 2003 Indenture" that certain Trust Indenture, dated as of October 1,2003, between the Authority and Wachovia Bank, National Association, as predecessor to the Trustee.

"Outstanding" in connection with any Bonds, means as of the time in question, all Bonds which have been authenticated and delivered under the respective Indenture, except:

(i) Bonds theretofore canceled or required to be canceled pursuant to such Indenture;

(ii) Bonds deemed to have been paid in accordance with the provisions of the Indentures described below under the caption "**Defeasance**"; and

(iii) Bonds in substitution for which other Bonds have been authenticated and delivered.

In determining whether the registered owners of a requisite aggregate principal amount of Bonds outstanding have concurred in any request, demand, authorization, direction, notice, consent or waiver under the provisions of an Indenture, Bonds which are held by or on behalf of the Authority or any affiliate thereof are disregarded for the purposes of any such determination unless all such Bonds are so owned.

"Paying Agent" means (i) the Trustee or (ii) any bank or trust company appointed by the Authority and the Trustee meeting the qualifications of a Paying Agent under an Indenture and which accepts the responsibilities and duties of a Paying Agent under such Indenture pursuant to a written agreement among the Trustee, the Authority and the bank or trust company agreeing to serve as the Paying Agent.

"Person" means an individual, a corporation, a partnership, an association, a joint stock company, a joint venture, a trust, an unincorporated organization, a governmental unit or an agency, political subdivision or instrumentality thereof or any other group or organization of individuals.

"Pledged Revenues" means (i) the respective revenues received by the Authority pursuant to the 2001 Joint Resolution or the 2003 Joint Resolution, (ii) all other amounts which are deposited into the respective Revenue Funds by the Authority and (iii) the respective investment earnings on the foregoing and on any funds and accounts established pursuant to the Indentures.

"Principal Office" when referring to the Trustee, means the office where the Trustee maintains its principal corporate trust office, and when referring to any other Person, means the office thereof designated as such in writing to the Trustee and the Authority, or such other address as may be provided by the Trustee.

"Rating Agency" means Standard & Poor's, Moody's or Fitch, whichever has provided and is maintaining a rating for the Bonds of any series, and includes their successors and assigns. If either such corporation which has provided a rating for the Bonds of any series no longer performs the functions of a securities rating service, such corporation will thereafter be deemed to refer to any other nationally recognized rating service which provides a rating for the Bonds of such series, as designated by the Authority, upon written notice to the Trustee.

"Rebate Analyst" means a certified public accountant, financial analyst, bond counsel or any firm of the foregoing, or any financial institution experienced in making the arbitrage and rebate calculations required pursuant to Section 148 of the Code and any regulations promulgated thereunder and retained by the Authority to make the required rebate computations.

"Rebate Fund" means the respective Rebate Fund established pursuant to the provisions of the related Indenture described below under the caption "**Revenues and Funds—**C*reation of Funds*."

"Record Date" means the 15th day (whether or not a Business Day) of the calendar month next preceding any interest payment date, redemption date or maturity date.

"Revenue Fund" means the respective fund of that name created pursuant to the provisions of the related Indenture described under the caption "**Revenues and Funds—**C*reation of Funds*," into which the Authority will cause the respective Pledged Revenues to be deposited.

"Securities Depository" means any securities depository that is a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered pursuant to provisions of Section 17A of the Securities Exchange Act of 1934, operating and maintaining, with its participants or otherwise, a Book-Entry System to record ownership of beneficial interest in bonds and bond service charges, and to effect transfers of bonds in Book-Entry Form, and means, initially, The Depository Trust Company (a limited purpose trust company), New York, New York.

"Securities Depository Nominee" means any nominee of a Securities Depository and initially means Cede and Co., New York, New York, as nominee of The Depository Trust Company.

"Series 2001 Bonds" means the $350,000,000 in original aggregate principal amount of State Road and Tollway Authority State of Georgia Guaranteed Revenue Bonds (Governor's Transportation Choices Initiative), Series 2001.

"Series 2003 Bonds" means the $309,140,000 in original aggregate principal amount of State Road and Tollway Authority State of Georgia Guaranteed Revenue Bonds, Series 2003.

"Series 2011 Bonds" means collectively the Series 2011A Bonds and the Series 2011B Bonds.

"Series 2011A Bonds" means the $203,460,000* in original aggregate principal amount of State Road and Tollway Authority State of Georgia (Full Faith and Credit) Guaranteed Revenue Refunding Bonds, Series 2011A.

"Series 2011B Bonds" means the $151,675,000* in original aggregate principal amount of State Road and Tollway Authority State of Georgia (Full Faith and Credit) Guaranteed Revenue Refunding Bonds, Series 2011B.

"Sinking Fund" means the respective fund of that name created pursuant to the provisions of the related Indenture described under the caption "**Revenues and Funds—***Creation of Funds.*"

"Sinking Fund Year" means the period commencing on October 2 of each year and ending on October 1 of the following calendar year.

"Standard & Poor's" means Standard & Poor's Rating Services, a Division of The McGraw-Hill Companies, Inc.

"State" means the State of Georgia.

"Supplemental Indenture" means any supplemental indenture executed and delivered by the Authority and the Trustee pursuant to the provisions of the Indenture related thereto.

"2011A First Supplemental Indenture" means that certain First Supplemental Trust Indenture, to be dated as of March 1, 2011, between the Authority and Trustee, supplementing the Original 2001 Indenture.

"2011B First Supplemental Indenture" means that certain First Supplemental Trust Indenture, to be dated as of March 1, 2011, between the Authority and Trustee, supplementing the Original 2003 Indenture.

"2001 Indenture" means collectively the Original 2001 Indenture and the 2011A First Supplemental Indenture.

"2001 Indenture Bonds" means collectively the unrefunded Series 2001 Bonds and the Series 2011A Bonds.

"2001 Joint Resolution" means that certain Joint Resolution adopted by the State Transportation Board on November 15, 2001 and by the Authority on November 19, 2001, specifically with respect to the Series 2001 Bonds.

"2003 Indenture" means collectively the Original 2003 Indenture and the 2011B First Supplemental Indenture.

"2003 Indenture Bonds" means collectively the unrefunded Series 2003 Bonds and the Series 2011B Bonds.

"2003 Joint Resolution" means that certain Joint Resolution adopted by the State Transportation Board on September 10, 2003 and by the Authority on September 18, 2003, specifically with respect to the Series 2003 Bonds.

"Trustee" means U.S. Bank National Association, and any successor trustee or trustees under the Indentures and any co-Trustees appointed under the Indentures.

Issuance of Bonds; Global Form

Authentication of Bonds

Before the Trustee authenticates any of the Series 2011 Bonds, there shall be delivered to the Trustee the following:

(i) a written request by the Chairman of the Authority requesting the Trustee to authenticate and deliver such Series 2011 Bonds upon the receipt by the Trustee for the account of the Authority of specified sums;

(ii) a copy, certified by the Secretary of the Authority, of the resolution adopted by the Authority authorizing the issuance and delivery of the Series 2011 Bonds and the execution, delivery and performance of the Indentures;

(iii) an executed counterpart of the related Indenture;

(iv) a certificate of the Clerk of the Superior Court of Fulton County certifying that the judgment of validation has been entered with respect to the Series 2011 Bonds;

(v) a certified copy of the action of the Georgia State Financing and Investment Commission authorizing the issuance of the Series 2011 Bonds as Guaranteed Revenue Bonds; and

(vi) the opinion of Bond Counsel, to the effect that the Series 2011 Bonds to be authenticated are valid and binding obligations of the Authority and constitute Guaranteed Revenue Bonds and that the interest thereon is not includable in gross income for federal tax purposes.

Before the Trustee authenticates any Additional Bonds, there shall be delivered to the Trustee the items described below under the caption "**Revenues and Funds—***Additional Parity Bonds*.**"**

Securities Depository

Any Series 2011 Bonds issued in Book-Entry Form will be initially issued as a single bond for each maturity registered in the name of the Securities Depository or the Securities Depository Nominee, and ownership thereof will be maintained in Book-Entry Form by the Securities Depository for the account of the Agent Members thereof. Beneficial Owners will not receive Series 2011 Bonds from the Trustee evidencing their ownership interests. Except as described below, the Series 2011 Bonds may be transferred, in whole but not in part, only to the Securities Depository or the Securities Depository Nominee, or to a successor Securities Depository selected or approved by the Authority or to a nominee of such successor Securities Depository.

With respect to Series 2011 Bonds registered in the name of the Securities Depository or the Securities Depository Nominee, neither the Authority nor the Trustee will have any responsibility or obligation to any Agent Member or Beneficial Owner. Without limiting the foregoing, neither the Authority nor the Trustee will have any responsibility or obligation with respect to:

(i) the accuracy of the records of the Securities Depository, the Securities Depository Nominee or any Agent Member with respect to any Beneficial Ownership interest in the Series 2011 Bonds;

(ii) the delivery to any Agent Member, any Beneficial Owner or any other person, other than the Securities Depository or the Securities Depository Nominee, of any notice with respect to the Series 2011 Bonds; or

(iii) the payment to any Agent Member, any Beneficial Owner or any other person, other than the Securities Depository or the Securities Depository Nominee, of any amount with respect to the principal of, premium, if any, or interest on the Series 2011 Bonds.

So long as any Series 2011 Bonds are registered in Book-Entry Form, the Authority, and the Trustee may treat the Securities Depository as, and deem the Securities Depository to be, the absolute owner of such Series 2011 Bonds for all purposes whatsoever, including without limitation:

(i) the payment of principal of, premium, if any, and interest on such Series 2011 Bonds;

(ii) giving notices of redemption and other matters with respect to such Series 2011 Bonds;

(iii) registering transfers with respect to such Series 2011 Bonds; and

(iv) voting and obtaining consents under the Indentures.

So long as any Series 2011 Bonds are registered in Book-Entry Form, the Trustee will pay all principal of, premium, if any, and interest on the Series 2011 Bonds only to the Securities Depository or the Securities

Depository Nominee as shown in the registration books kept by the Trustee, and all such payments will be valid and effective to fully discharge the Authority's obligations with respect to payment of principal of, premium, if any, and interest on the Series 2011 Bonds to the extent so paid.

Under certain circumstances provided for in the Indentures, the Authority may discontinue the Book-Entry System and in such case will execute and the Trustee will authenticate and deliver certificates representing the Series 2011 Bonds to the Bondholders. Such bond certificates will be registered in such names and Authorized Denominations as the Securities Depository, pursuant to instructions from the Agent Member or otherwise, instructs the Trustee. Upon exchange, the Trustee will authenticate and deliver such Series 2011 Bonds representing the Series 2011 Bonds to the persons in whose names such Series 2011Bonds are so registered on the business day immediately preceding the date of such exchange.

2011A Expense Account

The 2011A First Supplemental Indenture creates a separate account of the Authority to be designated as the "2011A Expense Account." All payments from the 2011A Expense Account shall be applied at the written direction of the Authority to the payment of costs and expenses incurred by the Authority in connection with the issuance and delivery of the Series 2011A Bonds.

2011B Expense Account

The 2011B First Supplemental Indenture creates a separate account of the Authority to be designated as the "2011B Expense Account." All payments from the 2011B Expense Account shall be applied at the written direction of the Authority to the payment of costs and expenses incurred by the Authority in connection with the issuance and delivery of the Series 2011B Bonds.

Revenues and Funds

Creation of Funds

The Indentures each create the following funds and accounts:

(i) The State Road and Tollway Authority Transportation Revenue Fund;

(ii) The State Road and Tollway Authority Transportation Sinking Fund;

(iii) The State Road and Tollway Authority Motor Fuel Tax Guarantee Fund; and

(iv) The State Road and Tollway Authority Transportation Rebate Fund.

Each such fund and account will be maintained separate and apart from any other fund or account

2001 Indenture Pledged Revenues; Disposition of 2001 Indenture Revenue Fund

All Pledged Revenues under the 2001 Indenture will be collected by the Authority or by its agents or employees and will be deposited promptly with the Trustee to the credit of the Revenue Fund. At the times provided below, the Trustee will transfer moneys from the Revenue Fund, to the extent available, and deposit the amounts required to the following funds and accounts:

(i) On or before the 24th day of each month (or the first Business Day thereafter if such day is not a Business Day), until there are on deposit in the Sinking Fund moneys in an amount sufficient to pay the entire amount of principal of the unrefunded Series 2001 Bonds and the Series 2011A Bonds (collectively, the "**2001**

Indenture Bonds"), coming due in the then-current Sinking Fund Year, whether at maturity or by proceedings for mandatory redemption, and the interest which will become due and payable on the 2001 Indenture Bonds during the then-current Sinking Fund Year, the Trustee will transfer the entire balance of the Revenue Fund to the Sinking Fund. There will be a credit against required monthly payments for 2001 Indenture Bonds purchased, redeemed or canceled, as provided in the 2001 Indenture.

(ii) Moneys on deposit in the Revenue Fund after making the payments required by paragraph (i) above will be transferred by the Trustee to the Rebate Fund in the amount required to be paid to the United Sates Government (the "Rebate Amount") computed by the Rebate Analyst; provided, however, that the Authority has furnished the computation of such amount to the Trustee in writing at least three Business Days prior to the date for such transfer.

Moneys on deposit in the Revenue Fund after making the payments required by Paragraphs (i) and (ii) above may be used by the Authority to pay the costs of operating and maintaining the Project (as described in the 2001 Indenture—the "**2001 Project**") and to make any payments required to be made pursuant to the 2001 Indenture or pursuant to any other agreements entered into by the Authority in connection with operation and maintenance of the 2001 Project, the issuance of the 2001 Indenture Bonds or the administration of the 2001 Indenture, including allocable overhead and administrative costs of the Authority. If for any reason the monthly payments required to be made pursuant to Paragraphs (i) and (ii) above are not made in the full amount required, the deficiency will be added to and will become a part of the amount due and payable from the Revenue Fund in the next succeeding month.

If on the 2nd day of March in any year there are on deposit in the Sinking Fund any money and securities, same will be withdrawn therefrom and immediately deposited into the Revenue Fund.

2003 Indenture Pledged Revenues; Disposition of 2003 Indenture Revenue Fund

All Pledged Revenues under the 2003 Indenture will be collected by the Authority or by its agents or employees and will be deposited promptly with the Trustee to the credit of the Revenue Fund. At the times provided below, the Trustee will transfer moneys from the Revenue Fund, to the extent available, and deposit the amounts required to the following funds and accounts:

(i) On or before the Business Day immediately preceding the 1st day of each month, until there are on deposit in the Sinking Fund moneys in an amount sufficient to pay the entire amount of principal of the unrefunded Series 2003 Bonds and the Series 2011B Bonds (collectively, the "**2003 Indenture Bonds**"), coming due in the then-current Sinking Fund Year, whether at maturity or by proceedings for mandatory redemption, and the interest which will become due and payable on the 2003 Indenture Bonds during the then-current Sinking Fund Year, the Trustee will transfer the entire balance of the Revenue Fund to the Sinking Fund. There will be a credit against required monthly payments for 2003 Indenture Bonds purchased, redeemed or canceled, as provided in the 2003 Indenture.

(ii) Moneys on deposit in the Revenue Fund after making the payments required by paragraphs (i) above will be transferred by the Trustee to the Rebate Fund in the amount equal to the Rebate Amount computed by the Rebate Analyst; provided, however, that the Authority has furnished the computation of such amount to the Trustee in writing at least three Business Days prior to the date for such transfer.

Moneys on deposit in the Revenue Fund after making the payments required by the provisions of the Indenture described in paragraphs (i) and (ii) above may be used by the Authority to pay the costs of operating and maintaining the Project (as described in the 2003 Indenture—the "**2003 Project**") and to make any payments required to be made pursuant to the 2003 Indenture or pursuant to any other agreements entered into by the Authority in connection with operation and maintenance of the 2003 Project, the issuance of the 2003 Indenture Bonds or the administration of the 2003 Indenture, including allocable overhead and administrative costs of the Authority and the Commission, Trustee's fees and expenses, legal expenses, rating agency fees, and investment management fees and expenses. If for any reason the monthly payments required to be made pursuant to the provisions of the 2003 Indenture described in paragraphs (i) and (ii) above or by this paragraph are not made in the full amount required, the deficiency will be added to and will become a part of the amount due and payable from the Revenue Fund in the next succeeding month.

If on the 2nd day of October in any year there are on deposit in the Sinking Fund any money and securities, same will be withdrawn therefrom and immediately deposited into the Revenue Fund.

Guarantee Fund

There will be deposited to each Guarantee Fund any amounts derived from the Common Reserve Fund or otherwise paid by or on behalf of the State with respect to its obligations on the related Bonds then Outstanding, and any other amounts other than Pledged Revenues deposited with the Trustee with written instructions to deposit said amounts in the appropriate Guarantee Fund. Amounts in each Guarantee Fund will be applied by the Trustee to pay debt service on the related Bonds then Outstanding and falling due at any time for the payment or reimbursement of which money is not available in the related Sinking Fund, and amounts in the Guarantee Funds are not pledged to and will not be used to pay any other bond or obligation.

In the case of the 2001 Indenture Bonds, should any deficiency exist in the related Sinking Fund on the 25th day of a month preceding the month in which there occurs an Interest Payment Date or in which amounts otherwise are due with respect to 2001 Indenture Bonds then Outstanding, the Trustee will immediately make written demand upon the Authority and the Director of the Fiscal Division of the State Department of Administrative Services or otherwise against the State for satisfaction of the State's obligations under the Constitution and laws of the State with respect to the 2001 Indenture Bonds, which constitute Guaranteed Revenue Bonds, in an amount sufficient to pay the amounts due on the 2001 Indenture Bonds, after application of amounts available therefor in accordance with the terms of the 2001 Indenture in the related Sinking Fund, and the Authority will immediately certify in writing to such director and to the Trustee the amount of such insufficiency in such Sinking Fund.

In the case of the 2003 Indenture Bonds, should any deficiency exist in the related Sinking Fund on any date on which there occurs an Interest Payment Date or in which amounts otherwise are due with respect to 2003 Indenture Bonds then Outstanding, the Trustee will immediately make telephonic demand, followed immediately in writing, upon the Authority and the Director of the Fiscal Division of the State Department of Administrative Services or otherwise against the State for satisfaction of the State's obligations under the Constitution and laws of the State with respect to the 2003 Indenture Bonds, which constitute Guaranteed Revenue Bonds, in an amount sufficient to pay the amounts due on the 2003 Indenture Bonds, after application of amounts available therefor in accordance with the terms of the 2003 Indenture in the related Sinking Fund, and the Authority will immediately certify in writing to such director and to the Trustee the amount of such insufficiency in such Sinking Fund.

Nonpresentment of Bonds

In the event any Bond will not be presented for payment when the principal thereof becomes due, either at maturity, at the date fixed for redemption thereof, or otherwise, or if any interest check will not be cashed, if funds sufficient to pay such Bond or interest will have been made available to the Trustee for the benefit of the owner thereof, all liability of the Authority to the owner thereof for the payment of such Bond or such interest will forthwith cease, terminate, and be completely discharged, and thereupon it will be the duty of the Trustee to hold such fund or funds, uninvested and without liability for interest thereon, for the benefit of the owner of such Bond or the payee of such interest check, as the case may be, who will thereafter be restricted exclusively to such fund or funds for any claim of whatever nature on its part under the respective Indenture or on, or with respect to, such Bond or interest.

Any moneys so deposited with and held by the Trustee not so applied to the payment of such Bond or such interest, if any, within five years after the date on which the same will have become due (or such earlier date as immediately precedes the date on which such funds would be required to escheat or be payable to the State or any other governmental unit under any laws governing unclaimed funds) will be transferred to the Authority upon receipt of a written request of the Authority, and thereafter Bondholders will be entitled to look only to the Authority for payment, and then only to the extent of the amount so repaid, and the Authority will not be liable for any interest thereon and will not be regarded as a trustee of such money.

Trustee's Fees and Expenses

The Authority agrees to pay the Trustee, but only from the respective Pledged Revenues, until the principal of, interest, and premium, if any, on the related Bonds will have been fully paid, (i) an amount equal to the annual fee of the Trustee for the Ordinary Services of the Trustee rendered, as trustee, and its Ordinary Expenses of the Trustee incurred, as trustee, under the Indentures, as and when the same become due, (ii) the reasonable fees and charges of the Trustee, as bond registrar and paying agent and of any paying agents and co-bond registrars for acting as paying agent or co-bond registrar, and (iii) the reasonable fees and charges for the necessary Extraordinary Services of the Trustee and Extraordinary Expenses of the Trustee under the Indentures, as and when the same become due. The Authority may, without creating a default, contest in good faith the necessity for any such Extraordinary Services of the Trustee and Extraordinary Expenses of the Trustee and the reasonableness of any of the fees, charges, or expenses described above.

Moneys to be Held in Trust

All moneys required to be deposited with or paid to the Trustee for the account of the Funds under any provision of the respective Indenture (other than the Project Fund and the Rebate Fund with respect to the 2001 Indenture and the Project Fund and Rebate Fund with respect to the 2003 Indenture) will be held by the Trustee in trust and will, while held by the Trustee, constitute part of the related Trust Estate and be subject to the trust created by the respective Indenture and any lien or security interest granted with respect to each Trust Estate and will be and remain entitled to the benefit and will be subject to the security of the related Indenture for the equal and proportionate benefit (except as otherwise expressly provided in the respective Indenture) of the owners of all Outstanding Bonds. The Trustee covenants that all moneys held in any fund under the respective Indentures and any collateral securing such funds are a part of the respective Trust Estates, and that the rights and interests of the Bondholders in and to such moneys and collateral are and will be superior to the claims of the creditors and depositors of the Trustee and of any other financial institution in which such moneys are deposited or which has provided or pledged such collateral. To the extent not invested, all such moneys held by the Trustee in excess of the amount insured by the Federal Deposit Insurance Corporation or a successor federal agency will be continuously secured, for the benefit of the Authority and the owners of the Bonds, by a pledge of Investment Securities.

Additional Parity Bonds

The Authority covenants and agrees that it will not issue any other bonds or obligations of any kind or nature payable from or enjoying a lien on the Pledged Revenues prior or equal to the lien created for the payment of the 2001 Indenture Bonds or the Pledged Revenues prior or equal to the lien created for the payment of the 2003 Indenture Bonds, as the case may be, and any future issue or issues of Additional Parity Bonds authorized to be issued except as described below.

The Authority reserves the right, from time to time, to issue Additional Parity Bonds, which Additional Parity Bonds will rank as to lien on the Pledged Revenues on a parity with the 2001 Indenture Bonds or 2003 Indenture Bonds, as the case may be, previously issued in an unlimited amount, provided that all of the following conditions are met:

(i) The payments covenanted to be made into the related Sinking Fund, as the same may have been enlarged and extended in any proceedings authorizing the issuance of any Additional Parity Bonds, must be currently being made in the full amount as required and such Sinking Fund must be at its proper balance immediately prior to the issuance of such Additional Parity Bonds.

(ii) The Authority will authorize the issuance of said Additional Parity Bonds and will provide in a Supplemental Indenture, among other things, the date of and the rate or rates of interest such Additional Parity Bonds will bear, and the Interest Payment Dates and maturity dates and redemption provisions with respect to such Additional Parity Bonds and any other matters applicable thereto as the Authority may deem advisable.

(iii) The General Assembly of the State and the Georgia State Financing and Investment Commission will constitute such Additional Parity Bonds as Guaranteed Revenue Bonds.

(iv) Such Additional Parity Bonds and all proceedings relative thereto, and the security therefor, will be validated as prescribed by law.

(v) The Trustee will receive a written request by the Chairman of the Authority requesting the Trustee to authenticate and deliver such Additional Parity Bonds upon the receipt by the Trustee for the account of the Authority of a specified sum.

(vi) The Chairman of the Authority will execute simultaneously with the issuance of Additional Parity Bonds a certificate certifying compliance with all requirements of the related Indenture described above.

(vii) The Authority and the Trustee will receive an opinion of Bond Counsel to the effect that the proceedings authorizing the issuance of Additional Parity Bonds have been duly adopted by the Authority, that such Additional Parity Bonds were issued in conformity with the provisions of the related Indenture, that the Bonds to be authenticated are valid and binding obligations of the Authority and the interest thereon is not includable in gross income for federal tax purposes and that the issuance of such Additional Parity Bonds will not, in and of itself, affect the exclusion of interest on the related Outstanding Bonds from gross income for federal income tax purposes.

In the case of the 2001 Indenture Bonds, the Authority reserves the right, from time to time, to issue Additional Parity Bonds to refund all or a portion of any Outstanding 2001 Indenture Bonds, which Additional Parity Bonds will rank as to lien on the Pledged Revenues on a parity with the 2001 Indenture Bonds previously issued, provided that the conditions described in (i) through (vii) above are met and provided further that there is filed with the Trustee a certificate of the Chairman stating that the total interest requirement for the refunding Bonds, will be greater than the total interest requirement calculated immediately prior to the proposed issuance of such series of Bonds. By virtue of Article VII, Section IV, Paragraph V of the Constitution of Georgia of 1983 (the "Refunding Provision"), the requirements of (iii) are deemed to be met with respect to the Series 2011A Bonds and any Additional Parity Bonds hereafter issued in compliance with the Refunding Provision.

In the case of the 2003 Indenture Bonds, the Authority reserves the right, from time to time, to issue Additional Parity Bonds to refund all or a portion of any Outstanding 2003 Indenture Bonds, which Additional Parity Bonds will rank as to lien on the Pledged Revenues on a parity with the 2003 Indenture Bonds previously issued, provided that the conditions described in (i) through (vii) above are met and provided further that there is filed with the Trustee a certificate of the Secretary of the Georgia State Financing and Investment Commission stating that the term of the refunding Bonds does not extend beyond the term of the 2003 Indenture Bonds being refunded and that the total interest requirement for the refunding Bonds does not exceed the total interest requirement on the 2003 Indenture Bonds being refunded. In such case, notwithstanding the provisions of the related Indenture described in (iii) above, no action on the part of the General Assembly will be required.

Investments

Subject to the provisions of any law then in effect to the contrary, the Trustee will invest to the extent reasonably possible all moneys on deposit in the funds and accounts created and established pursuant to the respective Indentures and held by it in Investment Securities specified from time to time by oral (promptly confirmed in writing) or written direction from an Authorized Authority Representative. Such investments will be made so as to mature or be subject to redemption (without penalty) at the option of the owner thereof on or prior to the date or dates that the Authority anticipates that moneys therefrom will be required. The Trustee may trade with itself or its affiliates in the purchase and sale of such Investment Securities and the Trustee or its nominee will not be liable or responsible for any loss resulting from any such investment. Such Investment Securities will be registered in the name of the Trustee or its nominee except as may be otherwise contemplated by any other provision of either Indenture. The Trustee may invest in Investment Securities through its own trust department or bond department. The Trustee will not be responsible for any loss on any investment of moneys pursuant to either Indenture.

The Trustee will, without further direction from the Authority, sell such Investment Securities as and when required to make any payment for the purpose for which such investments are held. Each investment will be credited to the fund or account for which it is held, subject to any other provision of the related Indenture directing some other credit or disposition thereof, and the income, profits and revenues on such Investment Securities will be credited to the fund or account for which such investment was made unless otherwise provided in such Indenture.

Particular Covenants

Payment of Principal, Interest and Premium; Limited Obligation

The Authority covenants that it will promptly pay, or cause to be paid, the principal of and the interest on the Bonds at the places, on the dates and in the manner provided in the Indentures and in the Bonds, according to the true intent and meaning thereof, but only from the Trust Estates.

The Bonds will not be general obligations of the Authority but limited and special obligations payable solely from the Pledged Revenues and other amounts specifically pledged therefor under the Indentures, and will be a valid claim of the respective Owners thereof only against the various accounts of the Sinking Funds and other moneys held by the Trustee or otherwise pledged therefor, which amounts are pledged, assigned and otherwise secured for the equal and ratable payment of the Bonds and will be used for no other purpose than to pay the principal of, premium, if any, and interest on the Bonds, except as may be otherwise expressly authorized in the

Indentures. Any Bonds which are Guaranteed Revenue Bonds, as provided by the Constitution and laws of the State, will be guaranteed by the State as to the full payment thereof and the interest thereon in accordance with the terms thereof, and the full faith, credit and taxing power of the State will be pledged to such payment.

Performance; Authorization, Execution and Delivery.

The Authority covenants that it will faithfully perform at all times any and all covenants, undertakings, stipulations, and provisions contained in the Indentures, in any and every Bond executed, authenticated, and delivered thereunder, and in all proceedings pertaining thereto. The Authority represents and warrants that it is duly authorized under the Constitution and laws of the State of Georgia, particularly the Act, to issue the Bonds authorized thereby and to enter into the Indentures and to pledge the Trust Estates in the manner and to the extent therein set forth; that all action on its part for the issuance of the Bonds initially issued thereunder and the adoption of the Indentures has been duly and effectively taken; and that the Bonds in the hands of the registered owners thereof are and will be valid and enforceable limited obligations of the Authority according to their terms. The Authority warrants that the Trust Estates have not been the subject of any previous conveyances, assignments or pledges by the Authority.

Further Assurances

The Authority covenants that it will do, execute, acknowledge and deliver or cause to be done, executed, acknowledged and delivered such Supplemental Indentures and such further acts, instruments, and transfers as the Trustee may reasonably require for the better assuring, transferring, conveying, pledging, assigning, and confirming unto the Trustee the Trust Estates. Any and all property acquired after the date of execution and delivery of the Indentures which is of the kind or nature provided in the Indentures to be and become subject to the lien and security interest thereof will, without any further conveyance, assignment, or act on the part of the Authority or the Trustee, be and become subject to the lien and security interest of the Indentures as fully and completely as though specifically described therein. The Authority covenants and agrees that, except as provided in the Indentures, it has not and will not sell, convey, assign, pledge, encumber, grant a security interest in, or otherwise dispose of, or create or suffer to be created any lien, encumbrance, security interest, or charge upon, any part of the Trust Estates or the Pledged Revenues or the income and revenues therefrom, or enter into any contract or take any action by which the rights of the Trustee or the Bondholders may be impaired. The Authority will at all times, to the extent permitted by law, defend, preserve, and protect the pledge, assignment, lien, and security interest in and on the Trust Estates and all the rights of the Bondholders under the Indentures against all claims and demands of all persons whomsoever.

Recording and Filing

The security interest of the Trustee created by the Indentures will be perfected by the filing of financing statements required to be filed by the Authority pursuant to the State of Georgia Uniform Commercial Code or by the taking of possession of appropriate collateral. Such financing or continuation statements will be filed from time to time by the Authority, and the appropriate parties will take or maintain possession or control of appropriate collateral, as is necessary to preserve the security interest of the Indentures. The Trustee will not be responsible for the creation or perfection of any security interest created under the Indentures.

Maintenance of Existence

The Authority will at all times maintain its corporate existence or assure the assumption of its obligations under the Indentures by any other entity succeeding to its powers.

Creation of Liens

The Authority will not issue or permit to remain outstanding any bonds, notes, obligations, or other evidences of indebtedness of similar nature, payable out of or secured by a pledge or assignment of or lien or security interest in the Trust Estates, or create or cause to be created any other pledge or assignment of, or lien, charge, or encumbrance on, the Trust Estates. The Authority reserves the right to issue such other bonds or other obligations payable from and secured by revenues and facilities other than the 2001 Project and the 2003 Project and the Trust Estates or other funds or sources.

Arbitrage Covenant

The Authority covenants and agrees that it will not, subsequent to the date of the issuance and delivery of the Bonds, intentionally use any portion of the proceeds of the Bonds to acquire higher yielding investments, or to replace funds which were used directly or indirectly to acquire higher yielding investments, except as may otherwise be permitted by the Code or the regulations promulgated thereunder, including, but not limited to, complying with the requirements of Section 148(f) of the Code and the regulations promulgated thereunder and the payment of rebate, if any, required to be made.

The Authority covenants with the holders of the Bonds as follows:

(i) that it will not take any action, or fail to take any action, if any such action or failure to take action would adversely affect the tax exempt status of interest on the Bonds under Section 103 of the Code.

(ii) that no use will be made (directly or indirectly) of the proceeds of the Bonds or of the facilities financed or refinanced thereby which would cause any of the Bonds to be a "private activity bond" within the meaning of Section 141(a) of the Code, including, without limitation, any sale, lease, management or similar use of property acquired with the proceeds of the Bonds to or by any person other than a governmental unit (other than as a member of the general public).

(iii) that it will not directly or indirectly use or permit the use of any proceeds of the Bonds or any other funds of the Authority or take or omit to take any action that would cause the Bonds to be "arbitrage bonds" within the meaning of Section 148 of the Code. To that end, the Authority will comply with all requirements of Section 148 of the Code to the extent applicable to the Bonds.

In the event that at any time the Authority is of the opinion that it is necessary to restrict or limit the yield on the investment of any moneys held under the Indentures, the Authority will take such action as may be necessary. Earnings on amounts in any fund or account may, and will to the extent necessary, be used to pay the Rebate Amount.

2001 Indenture Rebate Covenant

The Authority agrees to retain a Rebate Analyst. The Trustee will make information regarding the 2001 Indenture Bonds and the investment of funds related thereto available to the Rebate Analyst prior to the first day of March of each year. The Authority will cause the Rebate Analyst to annually make the computations of Rebate Amount pursuant to Section 148(f) of the Code. The Authority will cause to be deposited to the Rebate Fund any amount earned on any fund or account held under the 2001 Indenture in excess of the arbitrage yield on the 2001 Indenture Bonds, as directed by the Rebate Analyst. If a deposit to the Rebate Fund is required as a result of such computations, the Authority will prior to the end of any calendar year that a payment to the Rebate Fund is required cause an amount equal to the Rebate Amount to be deposited to the Rebate Fund by directing the Trustee to transfer such amount from the 2001 Indenture Bonds Revenue Fund into the Rebate Fund.

The Authority will cause the Rebate Analyst to compute the amount, if any, required to be paid to the United States in accordance with Section 148 of the Code and regulations promulgated thereunder and will pay such amounts from moneys on deposit in appropriate account of the Rebate Fund. The Authority will provide to the Trustee copies of the Form 8038-Gs originally filed with respect to the 2001 Indenture Bonds and any other required forms which are required to be filed with each payment. If the amount in the appropriate account of the Rebate Fund is insufficient to make any required payment to the United States, the Authority agrees to either (i) pay or cause to be paid any amount necessary to satisfy all or part of such deficiency, or (ii) direct the Trustee in writing to transfer all or part of the amount of such deficiency from the appropriate fund into the appropriate account of the Rebate Fund, or any combination of (i) or (ii) provided that the total amount deposited in the appropriate account of the Rebate Fund equals the amount of such deficiency.

The Trustee will not be responsible for determining compliance of the Authority with the requirements of the 2001 Indenture described above, and will not be responsible for making any payment of a Rebate Amount from the Rebate Fund, except as directed in writing by the Authority.

2003 Indenture Rebate Covenant

The Authority agrees to retain a Rebate Analyst. The Trustee will make information regarding the 2003 Indenture Bonds and the investment of funds related thereto available to the Rebate Analyst prior to the first day of March of each year. The Authority will cause the Rebate Analyst to annually make the computations of the Rebate Amount pursuant to Section 148(f) of the Code. The Authority will cause to be deposited to the Rebate Fund any amount earned on any fund or account held under the 2003 Indenture in excess of the arbitrage yield on the 2003 Indenture Bonds, as directed by the Rebate Analyst. If a deposit to the Rebate Fund is required as a result of such computations, the Authority will prior to the end of any calendar year that a payment to the Rebate Fund is required cause an amount equal to the Rebate Amount to be deposited to the Rebate Fund by directing the Trustee to transfer such amount from the Revenue Fund into the Rebate Fund.

The Authority will cause the Rebate Analyst to compute the amount, if any, required to be paid to the United States in accordance with Section 148 of the Code and regulations promulgated thereunder and will pay such amounts from moneys on deposit in appropriate account of the Rebate Fund. The Authority will provide to the Trustee copies of the Form 8038-Gs originally filed with respect to the 2003 Indenture Bonds and any other required forms which are required to be filed with each payment. If the amount in the appropriate account of the Rebate Fund is insufficient to make any required payment to the United States, the Authority agrees to either (i) pay or cause to be paid any amount necessary to satisfy all or part of such deficiency, or (ii) direct the Trustee in writing to transfer all or part of the amount of such deficiency from the appropriate fund into the appropriate account of the Rebate Fund, or any combination of (i) or (ii) provided that the total amount deposited in the appropriate account of the Rebate Fund equals the amount of such deficiency.

The Trustee will not be responsible for determining compliance of the Authority with the requirements of the 2003 Indenture described above, and will not be responsible for making any payment of a Rebate Amount from the Rebate Fund, except as directed in writing by the Authority.

Events of Default and Remedies

Events of Default

The 2001 Indenture Bonds and the 2003 Indenture Bonds are not cross-defaulted. Any one or more of the following events constitutes an "event of default" under the related Indenture:

(i) failure to make payment of the principal or redemption price of any Bond when the same shall become due and payable, either at maturity or by proceedings for redemption or otherwise;

(ii) failure to make payment of any installment of interest on any Bond when same shall become due and payable; or

(iii) failure of the Authority to duly and punctually perform any other of the covenants, conditions, agreements and provisions on its part contained in the Bonds or in the related Indenture, which failure shall continue for 60 days after written notice specifying such default and requiring the same to be remedied has been given to the Authority by the Trustee; provided, however, if the failure stated in such notice cannot be corrected within the applicable period, the Trustee will not unreasonably withhold its consent to an extension of such time if it is possible to correct such failure and corrective action is instituted by the Authority within the applicable period and is diligently pursued until such failure is corrected.

If such an event of default occurs, then in each and every such case the Trustee may, and upon the written request of the owners of a majority of the outstanding principal amount of Bonds affected by each event of default, the Trustee will, upon receiving indemnity or security satisfactory to it, proceed to protect and enforce its rights and the rights of the owners of the Bonds by a suit, action or special proceeding in equity or at law, by mandamus or otherwise, either for the specific performance of any covenant or agreement contained in the related Indenture or in aid or execution of any power therein granted or for any enforcement of any proper legal or equitable remedy as the Trustee, being advised by Counsel, deems most effectual to protect and enforce the rights aforesaid.

Notice of Default

The Trustee will immediately after the occurrence of an event of default consisting of a failure to pay principal or interest on the Bonds, and immediately after receipt of written notice of any other event of default, mail by first-class mail to the owners of the Bonds notice of all events of default known to the Trustee unless such defaults have been cured before the giving of such notice.

Termination of Proceedings by Trustee

In case any proceedings taken by the Trustee on account of any default has been discontinued or abandoned for any reason, or determined adversely to the Trustee, then and in every case the Authority, the Trustee and the owners of the Bonds will be restored to their former positions and rights under the related Indenture, and all rights, remedies and powers of the Trustee will continue as though no such proceeding had been taken.

Right of Bond Owners to Control Proceedings

The owners of a majority of the outstanding principal amount of the Bonds will have the right, by an instrument in writing executed and delivered to the Trustee, to direct the method and place of conducting all remedial proceedings to be taken by the Trustee in respect of the Bonds; provided that such direction is not otherwise than in accordance with law and the Trustee is indemnified to its satisfaction against the costs, expenses and liabilities which may be incurred therein or thereby.

Right of Bond Owners to Institute Suit

No owner of any of the Bonds will have any right to institute any suit, action or proceeding in equity or at law for the execution of any trust under the related Indenture, or for any other remedy under the related Indenture or on the related Bonds unless (a) such owner previously has given to the Trustee written notice of an event of default as described above, (b) the owner or owners of not less than 25 percent of the outstanding principal amount of the Bonds have made written request of the Trustee after the right to exercise such powers or right of action, as the case may be, shall have accrued, and have afforded the Trustee a reasonable opportunity either to proceed to exercise the powers described above or to institute such action, suit or proceeding in its name; (c) the Trustee has been offered security and indemnity satisfactory to it against the costs, expenses and liabilities which may be incurred therein or thereby; and (d) the Trustee has refused or neglected to comply with such request within a reasonable period of time.

Waiver of Default

No delay or omission of the Trustee or of any of the owners of any Bond to exercise any right, remedy or power upon any default shall be construed to be a waiver of any such default, or an acquiescence therein; and every right, power and remedy granted by the related Indenture to the Trustee and the owners of the related Bonds, respectively, may be exercised from time to time, and as often as may be deemed expedient.

Application of Moneys After Default

The Authority covenants that if an event of default shall happen and shall not have been remedied, the Trustee shall apply all moneys, securities and funds received by the Trustee pursuant to any right given or action taken under the provisions of the related Indenture in the following order:

(i) Expenses of Trustee—to the payment of the reasonable and proper fees, charges, expenses and liabilities of the Trustee (including collection fees and counsel fees and expenses);

(ii) Principal or Redemption Price and Interest—to the payment of the interest and principal or redemption price then due on the Bonds, as follows:

(a) Unless the principal of all Bonds has become due and payable, all such moneys will be applied

first: to the payment to the persons entitled thereto of all installments of interest then due, in the order of the maturity of such installments, and, if the amount available is not sufficient to pay in full any particular installment, then to the payment ratably, according to the amounts due on such installment, to the persons entitled thereto, without any discrimination or preference;

second: to the payment to the persons entitled thereto of the unpaid principal of any of the Bonds which has become due (other than Bonds called for redemption for the payment of which moneys are held pursuant to the provisions of the related Indenture), in the order of their due dates, with interest on such Bonds from the respective dates upon which they became due, and, if the amount available is not sufficient to pay in full Bonds due on any particular date, together with such interest, then to the payment first of such interest, ratably according to the amount of such interest due on such date, and then to the payment of such principal, ratably according to the amount of such principal due on such date, to the persons entitled thereto without any discrimination or preference; and

third: to the payment of the redemption premium on and the principal of any Bonds called for redemption.

(b) If the principal of all the Bonds has become due and payable, all such moneys will be applied to the payment of the principal and interest then due and unpaid upon the Bonds, with interest thereon as aforesaid, without preference or priority of principal over interest or of interest over principal, or of any installment of interest over any other installment of interest, or of any Bond over any other Bond, ratably, according to the amounts due respectively for principal and interest, to the persons entitled thereto without any discrimination or preference.

Whenever moneys are to be applied by the Trustee pursuant to the provisions of the respective Indenture described above, such moneys will be applied by the Trustee at such times, and from time to time, as the Trustee determines in its sole discretion, having due regard to the amount of such moneys available for application and the likelihood of additional moneys becoming available for such application in the future. The setting aside of such moneys in trust for the proper purpose will constitute proper application by the Trustee; and the Trustee will incur no liability whatsoever to the Authority, to any owner of a Bond or to any other person for any delay in applying any such funds, so long as the Trustee acts with reasonable diligence, having due regard to the circumstances, and ultimately applies the same in accordance with such provisions of the related Indenture as may be applicable at the time of application by the Trustee. Whenever the Trustee exercises such discretion in applying such funds, it will fix the date (which shall be an interest payment date unless the Trustee deems another date more suitable) upon which such application is to be made and upon such date interest on the amounts of principal paid on such date will cease to accrue. The Trustee will give such notice as it may deem appropriate of the fixing of any such date and of the endorsement to be entered on each Bond on which payment is made, and will not be required to make payment to the owner of any Bond until such Bond has been presented to the Trustee for appropriate endorsement, or some other procedure deemed satisfactory by the Trustee.

Concerning the Trustee

Acceptance by Trustee

The Trustee accepts the trusts created by the Indentures, but only upon the terms and conditions described below, and no implied covenants or obligations are to be read into the Indentures against the Trustee.

Performance of Duties

The Trustee agrees, prior to an event of default, and after the curing of all such events of default which may have occurred, to perform such duties and only such duties as are specifically set forth in the related Indenture, using such care as a corporate trustee ordinarily would use in performing trusts under a corporate indenture under which no default has occurred. The Trustee agrees that, during the existence of any such event of default which has not been cured, it will exercise such of the rights and powers vested in it by the related Indenture, and use the same degree of care and skill in their exercise, as a prudent fiduciary would exercise or use under the circumstances in the conduct of the affairs of its beneficiaries.

The Trustee will not be relieved from liability for its own negligent action, its own grossly negligent failure to act, or its own willful misconduct, except that

(i) prior to an event of default and after the curing of all such events of default which may have occurred:

(1) the duties and obligations of the Trustee will be determined solely by the express provisions of the related Indenture, and the Trustee will not be liable except for the performance of such duties and obligations as are specifically set forth in the related Indenture, and no implied covenants or obligations will be read into the related Indenture against the Trustee; and

(2) In the absence of bad faith on the part of the Trustee, the Trustee may conclusively rely, as to the truth of the statements and the correctness of the opinion expressed therein, upon any certificate or opinion furnished to the Trustee conforming to the requirements of the related Indenture; but in the case of any such certificate or opinion which by any provision of the Indenture is specifically required to be furnished to the Trustee, the Trustee will be under a duty to examine the same to determine whether or not it conforms to the requirements of the related Indenture;

(ii) at all times, regardless of whether or not any such event of default exists:

(1) the Trustee will not be liable for any error of judgment made in good faith by a responsible officer or officers of the Trustee unless it is proven that the Trustee was negligent in ascertaining the pertinent facts; and

(2) the Trustee will not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the owners of not less than a majority (or such larger percentage as is otherwise specifically required by the terms of the related Indenture) in aggregate principal amount of all the Bonds at the time outstanding;

(iii) the Trustee is not required to expend or risk its own funds or otherwise incur individual financial liability in the performance of any of its duties or in the exercise of any of its rights or powers;

(iv) the permissive right of the Trustee to do things enumerated in the related Indenture will not be construed as a duty and the Trustee will not be answerable for other than its gross negligence or willful misconduct;

(v) the Trustee will not be required to take notice or be deemed to have notice of any default, except failure by the Authority to cause to be made any of the payments to the Trustee required to be made, unless a trust officer located at the principal office of the Trustee is specifically notified in writing of such default by the Authority, or by the owners of not less than 25 percent in aggregate principal amount of all Bonds then outstanding, and in the absence of such notice so delivered, the Trustee may conclusively assume there is no default except as aforesaid. All notices or other instruments required by the related Indenture to be delivered to the Trustee, must, in order to be effective, be delivered at the Principal Office of the Trustee;

(vi) the Trustee will not be required to give any bond or surety in respect to the execution of the said trusts and powers or otherwise in respect of the premises;

(vii) notwithstanding anything elsewhere in the related Indenture contained, the Trustee will have the right, but will not be required, to demand, in respect of the authentication of any Bonds, the withdrawal of any cash, the release of any property, or any action whatsoever within the purview of the related Indenture, any showings, certificates, opinions, appraisals or other information or corporate action or evidence thereof, in addition to that by the terms thereof required as a condition of such action by the Trustee, deemed desirable for the purpose of establishing the right of the Authority to the authentication of any Bonds, the withdrawals of any cash, the release of any property or the taking of any other action by the Trustee;

(viii) before taking any action, the Trustee may require that satisfactory indemnity or other security satisfactory to it be furnished for the reimbursement of all expenses to which it may be put and to protect it against all liability, except liability which is adjudicated to have resulted from the gross negligence or willful misconduct of the Trustee in connection with any action so taken;

(ix) all moneys received by the Trustee will be held in trust for the purposes for which they were received, until used or applied or invested. The Trustee will have no liability for interest on any moneys received except such as may be agreed upon;

(x) the Trustee will furnish to the Authority on request and at least annually a report setting forth a list of each investment purchased or sold by the Trustee in accordance with the provisions of the related Indenture during the period covered by the report, the date on which each such transaction took place, the purchase or sales price, as the case may be, of the investment, the rate of interest borne by the investment the fund and account for which such investment was made and such other information and data as the Authority may reasonably request; and

(xi) the Trustee may execute any of the trusts or powers of the related Indenture and perform any of its duties by or through attorneys, agents, receivers or employees, but will not be answerable for the conduct of the same unless it is proven that the Trustee was grossly negligent in ascertaining the pertinent facts.

Instruments Upon Which Trustee May Rely

Except as otherwise described above under the caption "—*Performance of Duties*,"

(i) the Trustee may rely and will be protected in acting upon any resolution, certificate, statement, instrument, opinion, report, notice, request, consent, order, certificate or other paper or document reasonably believed by it to be genuine and to have been signed or presented by the proper party or parties;

(ii) any notice, request, direction, election, order or demand of the Authority will be sufficiently evidenced by an instrument signed in the name of the Authority by an Authorized Authority Representative (unless other evidence in respect thereof is specifically required by the related Indentures);

(iii) the Trustee may consult with counsel, who may, but need not, be counsel for the Authority, and the opinion or advice of such counsel, approved by the Trustee in the exercise of reasonable care, will be full and complete authorization and protection in respect of any action taken or suffered by it in good faith and in accordance with the advice or opinion of such counsel; and

(iv) whenever in the administration of the trusts under the related Indenture the Trustee deems it necessary or desirable that a matter be proved or established prior to taking or suffering any action, such matter may, in the absence of gross negligence or willful misconduct on the part of the Trustee, be deemed to be conclusively proved and established by a certificate of the Authority; and such certificate of the Authority will, in the absence of gross negligence or willful misconduct on the part of the Trustee, be full warranty to the Trustee for any action taken or suffered by it under the provisions of the related Indenture upon the faith thereof.

Trustee not Responsible for Recitals and Other Matters

The Trustee will not be responsible in any manner whatsoever for the correctness of the recitals in the respective Indentures or in the related Bonds (except the Trustee's certificate of authentication thereon); and the Trustee will not be responsible or accountable in any manner whatsoever for or with respect to the validity or execution or sufficiency of the respective Indentures, or of any indenture supplemental thereto, or of the Bonds, or for the value of the respective Trust Estates, or any part thereof, or for the title of the Authority thereto, or for the security afforded by the respective Indentures or for the validity of any securities at any time held thereunder, and the Trustee makes no representation with respect thereto. The Trustee will not be accountable for the use or application by the Authority or the Authority of any Bonds or of the proceeds of such Bonds, or for the use or application of any moneys paid over by the Trustee in accordance with any provision of the respective Indentures.

Trustee May Acquire Bonds

The Trustee and its officers and directors may acquire and own, or become the pledgee of, Bonds and may otherwise deal with the Authority in the manner and to the same extent and with like effect as though it were not Trustee.

Intervention by Trustee

In any judicial proceeding to which the Authority is a party and which in the opinion of the Trustee and its counsel has a substantial bearing on the interests of owners of the Bonds, the Trustee may intervene on behalf of the owners of the Bonds and, subject to the receipt by the Trustee of satisfactory indemnity or other satisfactory security, will do so if requested in writing by the owners of not less than 25 percent of the outstanding principal amount of the Bonds. The rights and obligations of the Trustee to intervene in any such judicial proceeding under Section 906 of the respective Indentures are subject to the approval of a court of competent jurisdiction if approval of such intervention is otherwise required by law.

Qualification of Trustee

The Indentures require that there be at all times a trustee thereunder which is a commercial bank or trust company organized and doing business under the laws of the United States of America or any state thereof, authorized under such laws to exercise corporate trust powers, having, together with its affiliates (hereinafter defined) a combined capital, surplus and undivided profits of at least $75,000,000, or $500,000,000 in trust assets under management and subject to supervision or examination by federal or state authority. If such corporation publishes reports of condition at least annually, pursuant to law or to the requirements of any supervising or examining authority above referred to, the combined capital, surplus and undivided profits of such corporation will be deemed to be its combined capital, surplus and undivided profits as set forth in its most recent report of condition so published. In case at any time the Trustee shall cease to be eligible, the Trustee shall resign immediately. For purposes of this paragraph, the term "affiliate" of the Trustee means any corporation or other person which, directly or indirectly, controls or is controlled by or is under common control with the Trustee. For the purposes of this definition, "control" (including the correlative meanings of the terms "controlled by" and "under common control with"), as used with respect to any person, means the possession, directly or indirectly, or the power to direct or cause the direction of the management and policies of such person, whether through the ownership of voting securities or by contract or otherwise.

Resignation of Trustee and Appointment of Successor

The Trustee may at any time resign by giving written notice to the Authority and by giving to the owners of the Bonds notice by first class mail. Upon receiving such notice of resignation, the Authority must promptly appoint a successor Trustee by an instrument in writing.

In the event that in case either of the following occurs:

(i) the Trustee ceases to be eligible in accordance with the provisions of the Indentures described above under the caption "—*Qualification of Trustee*," and fails to resign after written request by the Authority, or

(ii) the Trustee becomes incapable of acting, or is adjudged a bankrupt or insolvent, or a receiver of the Trustee or of its property is appointed, or any public officer takes charge or control of the Trustee or of its property or affairs for the purpose of rehabilitation, conservation or liquidation,

then, in any such case, the Authority may remove the Trustee and appoint a successor Trustee by an instrument in writing.

The owners of a majority of the outstanding principal amount of the Bonds may at any time remove the Trustee and appoint a successor Trustee by an instrument or concurrent instruments in writing signed by such bond owners.

Any resignation or removal of the Trustee and appointment of a successor trustee will become effective upon acceptance of appointment by the successor Trustee. If no successor Trustee shall have been so appointed and have accepted such appointment within 30 days after the resignation or removal of the Trustee, the resigning Trustee or the Authority may petition any court of competent jurisdiction for the appointment of a successor Trustee, or any owner of the Bonds who has been a bona fide owner of a Bond or Bonds for at least six months may, on behalf of himself and all others similarly situated, petition any such court for the appointment of a successor Trustee. Such court may thereupon, after such notice, if any, as it may deem proper and prescribe, appoint a successor Trustee.

Notwithstanding any other provision of the Indentures, no removal or resignation of the Trustee (or any other paying agent) shall take effect until a successor has been appointed.

Concerning the Successor Trustee

Any successor Trustee will be required to execute, acknowledge and deliver to the Authority and to its predecessor Trustee an instrument accepting such appointment, and thereupon the resignation or removal of the predecessor Trustee will become effective and such successor Trustee, without any further act, deed or conveyance, will become vested with all the rights, powers, trusts, duties and obligations of its predecessor in the trusts of the Indentures, with like effect as if originally named as Trustee; but nevertheless, on the written request of the Authority or the request of the successor Trustee, the Trustee ceasing to act is required to execute and deliver an instrument transferring to such successor Trustee, all the rights, powers and trusts of the Trustee so ceasing to act. Upon request of any such successor Trustee, the Authority will execute any and all instruments in writing more fully and certainly vesting in and confirming to such successor Trustee all such rights, powers and duties. Any Trustee ceasing to act will, nevertheless, retain a lien upon funds held or collected by such Trustee to secure the amounts due it as compensation, reimbursement, expenses and indemnity.

Upon the acceptance of appointment by a successor Trustee, the Authority will give notice thereof by first class mail to all bond owners. If the Authority fails to mail such notice within 10 days after acceptance of appointment by the successor Trustee, the successor Trustee will cause such notice to be mailed at the expense of the Authority.

Merger or Consolidation of Trustee

Any corporation into which the Trustee may be merged or with which it may be consolidated, or any corporation resulting from any merger or consolidation to which the Trustee shall be a party, or any corporation succeeding to the corporate trust business of the Trustee in whole or in such part as includes the administration of the Trust Estate, will be the successor of the Trustee without the execution or filing of any paper or any further act, provided that such successor Trustee meets the requirements described above under the caption "—Qualifications of Trustee." If the Trustee is not the successor corporation in any such merger or consolidation, the Trustee must take such action as may be required to effect a transfer of the Trust Estates to such successor corporation.

Retention of Financial Statements

The Trustee will retain all financial statements furnished to it by the Authority for at least a period of seven years after the receipt thereof.

Co-Trustees

Two or more Persons may be designated as Co-Trustees, each with power and authority to function as Trustee under the Indentures, and any such Co-Trustees may determine between them the allocation of the functions involved in their service as Trustee. With the consent of the Authority, any Co-Trustee may resign and the remaining Trustee or Co-Trustees will perform the functions of Trustee.

Manner of Evidencing Ownership of Bonds; Meetings of Bond Owners

Ownership

Any request, direction or other instrument required by the Indentures to be signed or executed by Bondowners may be in any number of concurrent writings of similar tenor and may be signed or executed by such Bondowners in person or by agent appointed in writing. Proof of the execution of any such request, direction or other instruments, or of the writing appointing such agent and of the ownership of Bonds, if made in the following manner, will be sufficient for any purpose of the Indentures and will be conclusive in favor of the Trustee with regard to any action taken by it under such request:

(i) the fact and date of the execution by any person of any such writing may be proved by the certificate of any officer in any jurisdiction, who, by the laws thereof, has power to take acknowledgments within said jurisdiction, to the effect that the person signing such writing acknowledged before him the execution thereof, or by an affidavit of a witness to such execution; and

(ii) the ownership of Bonds will be proved by the registration book maintained by the Trustee.

Bond Owners' Meetings

A meeting of owners of Bonds may be called at any time and from time to time for any of the following purposes:

(i) to give any notice to the Authority or the Trustee, or to give any directions to the Trustee, or to consent to the waiving of any default under the Indentures and its consequences, or to take any other action authorized to be taken by such owners;

(ii) to remove the Trustee;

(iii) to consent to the execution of a Supplemental Indenture; or

(iv) to take any other action authorized to be taken by or on behalf of the owners of any specified aggregate principal amount of the Bonds under any other provision of the Indentures or under applicable law.

Meetings of owners may be held at such place or places as the Trustee or, in case of its failure to act, the Owners of Bonds calling the meeting determine.

Notice of every meeting of Owners of Bonds, setting forth the time and the place of such meeting and in general terms the action proposed to be taken at such meeting, will be given by first class mail not less than 20 nor more than 180 days prior to the date fixed for such meeting. In case at any time the Owners of Bonds of at least 25 percent in aggregate principal amount of the respective Outstanding Bonds have requested the Trustee to call a meeting of the Owners of Bonds by written request setting forth in reasonable detail the action proposed to be taken at the meeting, and the Trustee has not made the first giving of the notice of such meeting within 20 days after receipt of such request, then such owners may determine the time and the place for such meeting and may call such meeting to take any action authorized to be taken by the Bond Owners by giving notice thereof as described above.

Revocation by Bond Owners

At any time prior to (but not after) the evidencing to the Trustee of the taking of any action by the owners of Bonds of the percentage in aggregate principal amount of the Bonds specified in the Indentures in connection with such action, any owner of a Bond the number of which is included in the Bonds the owners of which have consented to such action may, by filing written notice with the Trustee at its principal office and upon proof of ownership as described above, revoke such consent so far as concerns such Bond. Otherwise, any such consent given by the owner of any Bond will be conclusive and binding upon such owner and upon all future owners of such Bond and of any Bond issued in exchange therefor or in lieu thereof, irrespective of whether or not any notation in regard thereto is made upon such Bond. Any action permitted to be taken by the owners will be conclusively binding upon the Authority, the Trustee, the registered owners of all the Bonds and anyone whatsoever when such action is taken by the owners of the percentage in aggregate principal amount of Bonds specified in the Indenture for such action.

Defeasance

If (1) the Authority pays or causes to be paid to the owners of the Bonds the principal, redemption premium (if any) and interest to become due thereon at the times and in the manner stipulated therein and in the Indentures, (2) all fees and expenses of the Trustee then due and owing or accrued and all fees and expenses to accrue until the payment in full of the Bonds have been paid or provided for to the satisfaction of the Trustee, and (3) the Authority keeps, performs and observes all and singular the covenants and promises in the Bonds and in the Indentures expressed as to be kept, performed and observed by it or on its part, the Trustee will cancel and discharge the Indentures and execute and deliver to the Authority such instruments in writing as are necessary to evidence such cancellation and discharge. If the Authority pays or causes to be paid to the owners of all outstanding Bonds of a particular maturity or series, the principal, premium, if any, and interest to become due thereon at the times and in the manner stipulated therein and in the Indentures, such Bonds will cease to be entitled to any lien, benefit or security under the Indentures, and all covenants, agreements and obligations of the Authority to the owners of such Bonds will thereupon cease, terminate and become discharged and satisfied.

Bonds for the payment or redemption of which sufficient moneys or sufficient Permitted Defeasance Investments (as hereinafter defined) have been deposited with the Trustee (whether upon or prior to the maturity or the redemption date of such Bonds) will be deemed to be paid and no longer outstanding under the Indentures; provided, however, that if such Bonds are to be redeemed prior to the maturity thereof, notice of such redemption must have been duly given as provided in the Indentures or irrevocable arrangements satisfactory to the Trustee must have been made for the giving thereof and all fees and expenses of the Trustee then due and owing or accrued and all fees and expenses to accrue in connection with such payment or redemption shall have been paid or provided for. "**Permitted Defeasance Investments**" means direct, general obligations of the United States government and obligations unconditionally guaranteed as to principal and interest by the United States government, which, as evidenced by a report of independent certified public accountants, with interest, mature and bear interest in such amounts and at such times as will assure sufficient cash to pay currently maturing interest and to pay principal and redemption premiums (if any) when due on the Bonds (or such portion thereof with respect to which such deposit is made), and the Trustee also receives an opinion of nationally-recognized bond counsel satisfactory to it to the effect that the pledge of such obligations to the payment of the Bonds will not, by itself, result in the interest on any Bonds or any obligations being issued to fund said defeasance becoming includable in gross income for federal income tax purposes under the Code.

Bonds deemed to have been paid by deposit of sufficient moneys or Permitted Defeasance Investments pursuant to this Section shall cease to be Guaranteed Revenue Bonds and to be secured by or have any call upon the Common Reserve Fund, the Guarantee Fund, the Sinking Fund or any other fund or account, except to the extent of such moneys or Permitted Defeasance Investments deposited with the Trustee pursuant to this Section.

Upon the cancellation and discharge of the Indenture as described above, or upon the deposit with the Trustee of sufficient money and Permitted Defeasance Investments, all liability of the Authority in respect of such Bond or Bonds shall cease, determine and be completely discharged and the owners thereof shall thereafter be entitled only to payment out of the moneys and the proceeds of the Permitted Defeasance Investments deposited with the Trustee as aforesaid for their payment. All moneys on deposit in any funds or accounts remaining after payment in full of all outstanding Bonds as described above will be remitted to the Authority.

Supplemental Indentures

Supplemental Indentures Not Requiring Consent of Bond Owners

The Authority and the Trustee from time to time and at any time, subject to the conditions and restrictions in the Indentures contained, may enter into a Supplemental Indenture or Indentures for any one or more or all of the following purposes:

(i) to add to the covenants and agreements of the Authority in the Indenture contained, other covenants and agreements thereafter to be observed or to surrender, restrict or limit any right or power reserved to or conferred upon the Authority;

(ii) to make such provisions for the purpose of curing any ambiguity, or curing, correcting or supplementing any defective provision, contained in the Indentures as may be requested or required by any nationally-recognized rating agency, or in regard to matters or questions arising under the Indentures, as the Authority may deem necessary or desirable and not inconsistent with the Indentures;

(iii) to provide for the issuance of Additional Parity Bonds pursuant to Section 507 of the respective Indentures;

(iv) to modify, amend or supplement the Indentures or any Supplemental Indentures in such manner as to permit the qualification of the Indentures under the Trust Indenture Act of 1939 or any similar federal statute or any state securities or trust indenture law and, if they so determine, to add to the Indentures, or any Supplemental Indentures, such other terms, conditions and provisions as may be permitted by the Trust Indenture Act of 1939 or similar federal statute or such state securities or trust indenture law;

(v) to grant additional rights and powers to the Trustee;

(vi) to create such accounts or subaccounts within the funds and accounts created thereunder as the Authority deems necessary or desirable to enable the Authority to account for expenditures of Bond proceeds or as otherwise requested by the Authority;

(vii) to provide for, or modify existing provisions to, a Book-Entry System of registration for the Bonds;

(viii) to obtain or maintain a rating on the Bonds from any Rating Agency; or

(ix) to make any other change that the Authority and the Trustee determine will not have a material adverse effect on the owners of the Bonds.

Supplemental Indentures Requiring Consent of Bond Owners

With the consent of the owners of not less than a majority in outstanding principal amount of the Bonds, the Authority and the Trustee may from time to time and at any time enter into a Supplemental Indenture or Indenture for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of the respective Indentures or of any Supplemental Indenture; provided, however, that no such Supplemental Indenture shall (1) extend the fixed maturity of any Bond or reduce the rate of interest thereon or extend the time for payment of interest, or reduce the amount of the principal thereof, or reduce or extend the time for payment of any premium payable on the redemption thereof, without the consent of the owners of each Bond so affected, or (2) reduce the aforesaid percentage of owners of Bonds required to approve any such Supplemental Indenture without the consent of the owners of all the Bonds then outstanding, or (3) deprive the owners of the Bonds (except as aforesaid) of the lien created by the Indentures, without the consent of the owners of all the Bonds then outstanding.

Notice of Supplemental Indenture

Prior to the execution and delivery of any Supplemental Indenture, the Trustee will mail to the Authority and the registered Owners of the Bonds, at least 30 days prior to the proposed effective date of such Supplemental Indenture a notice of such proposed Supplemental Indenture. Such notice (and the consents of the Owners of the Bonds) need not set forth such Supplemental Indenture in full but shall contain a summary of the provisions thereof. Such notice will set forth a time and procedure for consenting to such proposed Supplemental Indenture.

Promptly after the execution by the Authority and the Trustee of any Supplemental Indenture, a notice, setting forth in general terms the substance of such Supplemental Indenture, shall be given by the Authority by first-class postage prepaid, mailed to each owner of Bonds at the address appearing in the registration book maintained by the Trustee. Any failure of the Authority to give such notice, or any defect therein, shall not, however, in any way impair or affect the validity of any such Supplemental Indenture.

Supplemental Indenture to Modify The Indentures

Upon the execution of any Supplemental Indenture, the Indentures will be deemed to be modified and amended in accordance therewith and the respective rights, duties and obligations under the Indentures of the Authority, the Trustee and all owners of Bonds outstanding thereunder will thereafter be determined, exercised and enforced under the Indentures subject in all respects to such modification and amendments.

APPENDIX D

FORM OF AUTHORITY CONTINUING DISCLOSURE CERTIFICATE

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CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (this "Disclosure Certificate") is executed and delivered by the State Road and Tollway Authority (the "Authority" or the “Issuer”) in connection with the issuance of $203,460,000* in aggregate principal amount of its State of Georgia (Full Faith and Credit) Guaranteed Revenue Refunding Bonds, Series 2011A (the “2011A Bonds”) and $151,675,000* in aggregate principal amount of its State of Georgia (Full Faith and Credit) Guaranteed Revenue Refunding Bonds, Series 2011B (the “2011B Bonds” or collectively with the 2011A Bonds, the “Bonds”). The 2011A Bonds are being issued pursuant to a Trust Indenture, dated as of December 1, 2001, as supplemented by a First Supplemental Trust Indenture, dated as of March 1, 2011 (collectively the “2011A Indenture”), between the Authority and U.S. Bank National Association, as successor trustee (the “Trustee”). The 2011B Bonds are being issued pursuant to a Trust Indenture, dated as of October 1, 2003, as supplemented by a First Supplemental Trust Indenture, dated as of March 1, 2011 (collectively the “2011B Indenture”), between the Authority and U.S. Bank National Association, as successor trustee (the “Trustee”). The Authority hereby covenants and agrees as follows:

Section 1. **Purpose of this Disclosure Certificate**. This Disclosure Certificate is being executed and delivered by the Authority for 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 2011A Indenture and the 2011B Indenture, which apply to any capitalized term used in this Disclosure Certificate 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 Authority pursuant to, and as described in, Sections 4 and 5 of, this Disclosure Certificate.

"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.

"Annual Financial Statements" shall mean the Authority'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 from the Authority's inability to conform to future changes in generally accepted accounting principles), and which shall be accompanied by an audit report, if available at the time of submission of the Annual Filing to the MSRB pursuant to Section 4(a) hereof, 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).

“Authority” shall mean the State Road and Tollway Authority.

"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 Authority and which has filed with the Authority 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 Certificate made to the MSRB in an electronic format as shall be prescribed by the MSRB. As of the date hereof, EMMA is the electronic format prescribed by the MSRB.

"Fiscal Year" shall mean any period of twelve consecutive months adopted by the Authority 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 Road and Tollway Authority.

"Listed Events" shall mean any of the events listed in Section 7(a) hereof.

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

"MSRB" shall mean the Municipal Securities Rulemaking Board, or any successor thereto for purposes of 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

"Official Statement" shall mean the Official Statement of the Issuer dated March _, 2011 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 Authority pursuant to Section 6 hereof.

Section 3. Filings; <u>Actions of the Authority</u>.

(a) All Filings made pursuant to this Disclosure Certificate shall be provided to the MSRB in an electronic format as prescribed by the MSRB.

(b) The Secretary of the Authority (or his authorized designee) shall be the individual person authorized to be responsible for taking all actions described in this Disclosure Certificate.

Section 4. <u>Provision of Annual Filings</u>.

(a) Not later than one year after the end of each Fiscal Year, commencing with the Fiscal Year ending June 30, 2011, the Authority 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 Annual Financial Statements of the Authority may be submitted separately from the balance of the Annual Filing when such audited Annual Financial Statements are available. If the audit report described in the defined term "Annual Financial Statements" is not submitted as part of the Annual Filing to the MSRB pursuant to this Section 4(a), the Authority shall provide to the MSRB such audit report, together with the Annual Financial Statements to which such audit report relates, when they are available to the Authority.

(b) If the Annual Filing is not filed with the MSRB by the Annual Filing Date, the Authority shall, in a timely manner, send a notice of such failure to the MSRB.

(c) The Authority shall promptly file a notice of any change in its Fiscal Year and the new Annual Filing Date with the MSRB.

Section 5. <u>Contents of Annual Filings</u>. Each Annual Filing shall contain or incorporate by reference the following:

(a) the Annual 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 Authority, a narrative explanation describing the impact of such changes on the Authority; and

(c) information for the preceding Fiscal Year regarding the following categories of financial information and operating data of the Authority: collections of motor fuel taxes by the State of Georgia.

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 Authority 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 Authority shall clearly identify each such other document so incorporated by reference.

Section 6. <u>Voluntary Filings</u>.

(a) The Authority may file information with the MSRB from time to time (a "Voluntary Filing").

(b) Nothing in this Disclosure Certificate shall be deemed to prevent the Authority from disseminating any other information using the means of dissemination set forth in this Disclosure Certificate or including any other information in any Annual Filing, Annual Financial Statement, Voluntary Filing or Listed Event Filing, in addition to that required by this Disclosure Certificate. If the Authority 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 Certificate, the Authority shall have no obligation under this Disclosure Certificate 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 Authority is under no obligation to provide any Voluntary Filing.

Section 7. <u>Reporting of Significant Events</u>.

(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 security, or other material events affecting the tax status of the security.

(vii) Modifications to rights of holders, if material.

(viii) Bond calls, if material, and tender offers.

(ix) Defeasances.

(x) Release, substitution, or sale of property securing repayment of the securities, if material.

(xi) Rating changes.

(xii) Bankruptcy, insolvency, receivership or similar event of the Authority.

(xiii) The consummation of a merger, consolidation, or acquisition involving the Authority or the sale of all or substantially all of the assets of the Authority, 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 Authority 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 Authority, or if such jurisdiction has been assumed by leaving the existing governmental 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 Authority.

(c) The Authority 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 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 2011A Indenture or the 2011B Indenture, respectively.

Section 8. Termination of Reporting Obligation. The Authority's obligations under this Disclosure Certificate shall terminate as to a particular series of the Bonds upon the legal defeasance, prior redemption, or payment in full of all of the affected series of Bonds. If such termination occurs prior to the final maturity of the affected series of Bonds, the Authority 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 Authority may, from time to time, appoint a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and the Authority 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 Authority shall be the Dissemination Agent.

Section 10. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the Authority may amend this Disclosure Certificate, and any provision of this Disclosure Certificate 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 obligor on the Bonds, or type of business conducted by such obligor;

(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 Authority or by the approving vote of the registered 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 Authority'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 Authority to meet its obligations. To the extent reasonably feasible, the comparison shall also be quantitative. The Authority shall file a notice of the change in the accounting principles with the MSRB on or before the effective date of any such amendment or waiver.

Section 11. Default. In the event of a failure of the Authority to comply with any provision of this Disclosure Certificate, 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 Authority to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed a "default" or an "event of default" under the 2011A Indenture or the 2011B Indenture, and the sole remedy under this Disclosure Certificate in the event of any failure of the Authority to comply with this Disclosure Certificate shall be an action to compel performance. The cost to the Authority of performing its obligations under the provisions hereof shall be paid solely from funds lawfully available for such purpose.

Section 12. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the Authority, 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 Certificate, nor the performance by the Authority 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 Certificate 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 Certificate 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 Certificate shall for any reason be held to be illegal or invalid, such illegality or invalidity shall not affect any other provision of this Disclosure Certificate, but this Disclosure Certificate shall be construed and enforced as if such illegal or invalid provision had not been contained herein.

SIGNATURE PAGE TO CONTINUING DISCLOSURE CERTIFICATE

for

$203,460,000* STATE ROAD AND TOLLWAY AUTHORITY

STATE OF GEORGIA (FULL FAITH AND CREDIT)

GUARANTEED REVENUE REFUNDING BONDS, SERIES 2011A

and

$151,675,000* STATE ROAD AND TOLLWAY AUTHORITY

STATE OF GEORGIA (FULL FAITH AND CREDIT)

GUARANTEED REVENUE REFUNDING BONDS, SERIES 2011B

This Continuing Disclosure Certificate is hereby executed and delivered by a duly authorized official of the Authority, to be effective as of the Effective Date.

Date: March __, 2011

STATE ROAD AND TOLLWAY AUTHORITY

By: /s/______________________________
Gena L. Evans, Ph. D.
Secretary, State Road and Tollway Authority

APPENDIX E

FORM OF STATE CONTINUING DISCLOSURE CERTIFICATE

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CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (this "Disclosure Certificate") is executed and delivered by the State of Georgia (the "State") in connection with the issuance of $203,460,000* in aggregate principal amount of State Road and Tollway Authority State of Georgia (Full Faith and Credit) Guaranteed Revenue Refunding Bonds, Series 2011A (the “2011A Bonds”) and $151,675,000* in aggregate principal amount of State Road and Tollway Authority State of Georgia (Full Faith and Credit) Guaranteed Revenue Refunding Bonds, Series 2011B (the “2011B Bonds” or collectively with the 2011A Bonds, the “Bonds”). The Bonds are being guaranteed by the State pursuant to a resolution adopted by the Georgia State Financing and Investment Commission on March _, 2011 (the "Resolution"). The State hereby covenants and agrees as follows:

Section 1. **<u>Purpose of this Disclosure Certificate</u>**. This Disclosure Certificate is being executed and delivered by the State for 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. <u>Definitions</u>. In addition to the definitions set forth in the Resolution, which apply to any capitalized term used in this Disclosure Certificate 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 State pursuant to, and as described in, Sections 4 and 5 of this Disclosure Certificate.

"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.

"Annual Financial Statements" shall mean the State'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 from the State's inability to conform to future changes in generally accepted accounting principles), and which shall be accompanied by an audit report, if available at the time of submission of the Annual Filing to the MSRB pursuant to Section 4(a) hereof, 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 State and which has filed with the State 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 Certificate made to the MSRB in an electronic format as shall be prescribed by the MSRB. As of the date hereof, EMMA is the electronic format prescribed by the MSRB.

"Fiscal Year" shall mean any period of twelve consecutive months adopted by the State 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 Road and Tollway Authority.

"Listed Events" shall mean any of the events listed in Section 7(a) hereof.

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

"MSRB" shall mean the Municipal Securities Rulemaking Board, or any successor thereto for purposes of 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

"Official Statement" shall mean the Official Statement of the Issuer dated March _, 2011 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.

"State" shall mean the State of Georgia, acting by and through the Georgia State Financing and Investment Commission.

"Third-Party Beneficiary" shall have the meaning specified in Section 12 hereof.

"Voluntary Filing" means the information provided to the MSRB by the State pursuant to Section 6 hereof.

Section 3. Filings; Actions of the State.

(a) All Filings made pursuant to this Disclosure Certificate shall be provided to the MSRB in an electronic format as prescribed by the MSRB.

(b) 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 Certificate.

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, 2011, the State 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 Annual Financial Statements of the State may be submitted separately from the balance of the Annual Filing when such Audited Financial Statements are available. If the audit report described in the defined term "Annual Financial Statements" is not submitted as part of the Annual Filing to the MSRB pursuant to this Section 4(a), the State shall provide to the MSRB such audit report, together with the Annual Financial Statements to which such audit report relates, when they are available to the State.

(b) If the Annual Filing is not filed with the MSRB by the Annual Filing Date, the State shall send a notice of such failure to the MSRB.

(c) The State 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 Annual 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 State, a narrative explanation describing the impact of such changes on the State; and

(c) information for the preceding Fiscal Year regarding the following categories of financial information and operating data of the State: (i) authorized indebtedness, (ii) state treasury receipts and legal debt margin, (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 representing treasury receipts, and (ix) purchases for cancellation of general obligation debt and 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 State 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 State shall clearly identify each such other document so incorporated by reference.

Section 6. Voluntary Filings.

(a) The State may file information with the MSRB from time to time (a "Voluntary Filing").

(b) Nothing in this Disclosure Certificate shall be deemed to prevent the State from disseminating any other information using the means of dissemination set forth in this Disclosure Certificate or including any other information in any Annual Filing, Annual Financial Statement, Voluntary Filing or Listed Event Filing, in addition to that required by this Disclosure Certificate. If the State 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 Certificate, the State shall have no obligation under this Disclosure Certificate 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 State 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 security, or other material events affecting the tax status of the security.

(vii) Modifications to rights of holders, if material.

(viii) Bond calls, if material, and tender offers.

(ix) Defeasances.

(x) Release, substitution, or sale of property securing repayment of the securities, if material.

(xi) Rating changes.

(xii) Bankruptcy, insolvency, receivership or similar event of the State.

(xiii) The consummation of a merger, consolidation, or acquisition involving the State or the sale of all or substantially all of the assets of the State, 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 State 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 State, or if such jurisdiction has been assumed by leaving the existing governmental 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 State.

(c) The State 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 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 Trust Indentures securing such Bonds.

Section 8. Termination of Reporting Obligation. The State's obligations under this Disclosure Certificate shall terminate as to a particular series of the Bonds upon the legal defeasance, prior redemption, or payment in full of all of the affected series of Bonds. If such termination occurs prior to the final maturity of the affected series of Bonds, the State 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 State may, from time to time, appoint a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and the State 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 State shall be the Dissemination Agent.

Section 10. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the State may amend this Disclosure Certificate, and any provision of this Disclosure Certificate 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 obligor on the Bonds, or type of business conducted by such obligor;

(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 State or by the approving vote of the registered 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 State'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 State to meet its obligations. To the extent reasonably feasible, the comparison shall also be quantitative. The State shall file a notice of the change in the accounting principles with the MSRB on or before the effective date of any such amendment or waiver.

Section 11. **Default**. In the event of a failure of the State to comply with any provision of this Disclosure Certificate, 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 State to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed a "default" or an "event of default" under the Resolution or either Trust Indenture securing the Bonds, and the sole remedy under this Disclosure Certificate in the event of any failure of the State to comply with this Disclosure Certificate shall be an action to compel performance. The cost to the State of performing its obligations under the provisions hereof shall be paid solely from funds lawfully available for such purpose. Nothing contained in the Resolution or in this Disclosure Certificate shall obligate the levy of any tax for the State's obligations set forth herein.

Section 12. **Beneficiaries**. This Disclosure Certificate shall inure solely to the benefit of the State, 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 Certificate, nor the performance by the State 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 Certificate 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 Certificate 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 Certificate shall for any reason be held to be illegal or invalid, such illegality or invalidity shall not affect any other provision of this Disclosure Certificate, but this Disclosure Certificate shall be construed and enforced as if such illegal or invalid provision had not been contained herein.

SIGNATURE PAGE TO CONTINUING DISCLOSURE CERTIFICATE

for

$203,460,000* STATE ROAD AND TOLLWAY AUTHORITY

STATE OF GEORGIA (FULL FAITH AND CREDIT)

GUARANTEED REVENUE REFUNDING BONDS, SERIES 2011A

and

$151,675,000* STATE ROAD AND TOLLWAY AUTHORITY

STATE OF GEORGIA (FULL FAITH AND CREDIT)

GUARANTEED REVENUE REFUNDING BONDS, SERIES 2011B

This Continuing Disclosure Certificate is hereby executed and delivered by a duly authorized official of the State, to be effective as of the Effective Date.

Date: March __, 2011

STATE OF GEORGIA

By: /s/____________________________
RUSSELL W. HINTON
Secretary, Georgia State Financing and Investment Commission

APPENDIX F

FORM OF LEGAL OPINION

The form of Legal Opinion for each series of the Bonds included as this Appendix F has been prepared by Sutherland Asbill & Brennan LLP, Atlanta, Georgia, Bond Counsel, and is substantially the form to be given by such firm in connection with the delivery of such series of the Bonds.

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SUTHERLAND ASBILL &
BRENNAN LLP
999 Peachtree St., N.E.
Atlanta, GA 30309-3996
404.853.8000 Fax 404.853.8806
www.sutherland.com

March __, 2011

State Road and Tollway Authority
Atlanta, Georgia

Re: $______________State Road and Tollway Authority State of Georgia (Full Faith and Credit) Guaranteed Revenue Bonds, Series 2011A

$______________State Road and Tollway Authority State of Georgia (Full Faith and Credit) Guaranteed Revenue Bonds, Series 2011B

Ladies and Gentlemen:

We have examined a certified copy of the validation proceedings, judgment of validation entered on March __, 2011, a Trust Indenture, dated as of December 1, 2001 (the "2001 Original Indenture"), between the State Road and Tollway Authority (the "Authority") and First Union National Bank, as predecessor to U.S. Bank National Association, as trustee (in such capacity, the "2011A Trustee"), as supplemented by a First Supplemental Trust Indenture, dated as of March 1, 2011 (the "2011A First Supplemental Indenture" and, together with the 2001 Original Indenture, the "2001 Indenture"), between the Authority and the 2011A Trustee, a Trust Indenture, dated as of October 1, 2003 (the "2003 Original Indenture"), between the Authority and Wachovia National Bank, as predecessor to U.S. Bank National Association, as trustee (in such capacity, the "2011B Trustee"), as supplemented by a First Supplemental Trust Indenture, dated as of March 1, 2011 (the "2011B First Supplemental Indenture" and, together with the 2003 Original Indenture, the "2003 Indenture"; the 2001 Indenture and the 2003 Indenture, collectively, the "Indentures"), between the Authority and the 2011B Trustee, certified copy of the resolution of the Authority adopted March __, 2011 (the "2011 Resolution"), a certified copy of the resolution of the Georgia State Financing and Investment Commission adopted March __, 2011, the law and other documents relating to the State Road and Tollway Authority State of Georgia (Full Faith and Credit) Guaranteed Revenue Bonds, Series 2011A, in the original aggregate principal amount of $____________ (the "2011A Bonds") and the State Road and Tollway Authority State of Georgia (Full Faith and Credit) Guaranteed Revenue Bonds, Series 2011B, in the original aggregate principal amount of $____________ (the "2011B Bonds" and, together with the 2011A Bonds, the "Bonds"). In all of such examinations, we have assumed the genuineness of signatures on original documents and the conformity to original documents of all copies submitted to us as certified, conformed or photographic copies, and as to the certificates of public officials, we have assumed the same to have been properly given and to be accurate.

The Bonds of each series are initially issued in book-entry only form as fully registered bonds without coupons, dated their date of delivery, in the denomination of $5,000 or any integral multiple thereof, and bear interest and mature as set forth in the 2011 Resolution and in the related Indenture. The Bonds are not subject to redemption prior to maturity.

The Series 2011A Bonds are being issued pursuant to the 2001 Indenture for the purpose of providing funds to refund a portion of the Authority's outstanding State Road and Tollway Authority State of Georgia Guaranteed Revenue Bonds (Governor's Transportation Choices Initiative), Series 2001 (the "Refunded Series 2001 Bonds"), and are issued under authority of the Constitution of the State of Georgia, the various acts of the Georgia General Assembly creating the Authority (Title 32, Chapter 10, Article 2 of the Official Code of Georgia Annotated) and the Revenue Bond Law (Title 36, Chapter 82, Article 3 of the Official Code of Georgia Annotated), and have been duly authorized by the 2011 Resolution.

The Series 2011B Bonds are being issued pursuant to the 2003 Indenture for the purpose of providing funds to refund a portion of the Authority's outstanding State Road and Tollway Authority State of Georgia Guaranteed Revenue Bonds, Series 2003 (the "Refunded Series 2003 Bonds" and, together with the Refunded Series 2001 Bonds, the "Refunded Bonds"), and are issued under authority of the Constitution of the State of Georgia, the various acts of the Georgia General Assembly creating the Authority (Title 32, Chapter 10, Article 2 of the Official Code of Georgia Annotated) and the Revenue Bond Law (Title 36, Chapter 82, Article 3 of the Official Code of Georgia Annotated), and have been duly authorized by the 2011 Resolution.

The Refunded Bonds were used for providing funds to pay or to be applied toward the costs of the acquisition, construction and equipping of a land public transportation project consisting of the construction and improvement to roads and bridges in the State of Georgia, including related planning, engineering and land acquisition expenses and the payment of expenses incident thereto.

Simultaneously with the issuance and delivery of the Bonds, a sufficient sum as will be necessary derived from the sale of the Series 2011A Bonds and other lawfully available funds will be deposited with U.S. Bank National Association, as escrow agent (in such capacity, the "2011A Escrow Agent") under an Escrow Deposit Agreement dated as of March 1, 2011 (the "2011A Escrow Deposit Agreement"), between the Authority, the 2011A Escrow Agent and the 2011A Trustee, to pay the cost of establishing an initial cash balance and acquiring certain direct obligations of the United States of America (the "2011A Direct Obligations"), which cash and 2011A Direct Obligations shall be deposited in an irrevocable trust fund held by the 2011A Escrow Agent under the 2011A Escrow Deposit Agreement. The cash and 2011A Direct Obligations so deposited with the 2011A Escrow Agent and the principal of and the income derived from the cash and the 2011A Direct Obligations shall be subject to a lien and charge in favor of the owners of the Refunded Series 2001 Bonds and shall be held for the security of such owners until used and applied as provided in the 2011A First Supplemental Indenture and the 2011A Escrow Deposit Agreement. The moneys so deposited in trust with the 2011A Escrow Agent shall be in an amount sufficient without reinvestment and shall be used to refund all of the Refunded Series 2001 Bonds, on the earliest date for redemption.

Simultaneously with the issuance and delivery of the Bonds, a sufficient sum as will be necessary derived from the sale of the Series 2011B Bonds and other lawfully available funds will be deposited with U.S. Bank National Association, as escrow agent (in such capacity, the "2011B Escrow Agent") under an Escrow Deposit Agreement dated as of March 1, 2011 (the "2011B Escrow Deposit Agreement" and, together with the 2011A Escrow Deposit Agreement, the "Escrow Deposit Agreements"), between the Authority, the 2011B Escrow Agent and the 2011B Trustee, to pay the cost of establishing an initial cash balance and acquiring certain direct obligations of the United States of America (the "2011B Direct Obligations"), which cash and 2011B Direct Obligations shall be deposited in an irrevocable trust fund held by the 2011B Escrow Agent under the 2011B Escrow Deposit Agreement. The cash and 2011B Direct Obligations so deposited with the 2011B Escrow Agent and the principal of and the income derived from the cash and the 2011B Direct Obligations shall be subject to a lien and charge in favor of the owners of the Refunded Series 2003 Bonds and shall be held for the security of such owners until used and applied as provided in the 2011B First Supplemental Indenture and the 2011B Escrow Deposit Agreement. The moneys so deposited in trust with the 2011B Escrow Agent shall be in an amount sufficient without reinvestment and shall be used to refund all of the Refunded Series 2003 Bonds, on the earliest date for redemption.

The Series 2011A Bonds are not general obligations of the Authority but are limited and special obligations payable solely from and secured on a parity with the outstanding Series 2001 Bonds, excluding the Refunded Series 2001 Bonds, and any additional bonds hereafter issued pursuant to the 2001 Indenture (collectively, the "2001 Indenture Bonds") by a pledge of the Trust Estate (as defined in the 2001 Indenture), and will be a valid claim of the respective owners thereof only against the various accounts of the Sinking Fund created pursuant to the 2001 Indenture and other moneys held by the 2011A Trustee thereunder or otherwise pledged therefor.

The Series 2011B Bonds are not general obligations of the Authority but are limited and special obligations payable solely from and secured on a parity with the outstanding Series 2003 Bonds, excluding the Refunded Series 2003 Bonds, and any additional bonds hereafter issued pursuant to the 2003 Indenture (collectively, the "2003 Indenture Bonds") by a pledge of the Trust Estate (as defined in the 2003 Indenture), and will be a valid claim of the respective owners thereof only against the various accounts of the Sinking Fund created pursuant to the 2003 Indenture and other moneys held by the 2011B Trustee thereunder or otherwise pledged therefor.

The 2001 Indenture Bonds and the 2003 Indenture Bonds are not cross-collateralized or cross-defaulted. All of the Bonds, however, as provided by the Constitution and laws of the State of Georgia, are guaranteed revenue bonds and the State has guaranteed the full payment thereof and the interest thereon in accordance with the terms thereof and of each Indenture, and the State has pledged the full faith, credit and taxing power of the State to such payment.

We express no opinion with respect to the accuracy or completeness of any offering materials distributed in connection with the offer and sale of the Bonds or the compliance by the Authority or the underwriters of the Bonds with any law applicable to any of them in connection with the offer or sale of the Bonds.

In rendering our opinion that the interest on the Bonds is excluded from gross income for federal income tax purposes, we have relied as to questions of fact material to our opinion on certificates and certified proceedings of public officials, including officials of the Authority, and covenants of the Authority with respect to the use of the proceeds of the Bonds and the nature and use of the facilities being financed or refinanced thereby without undertaking to verify the same by independent investigation. In addition, the Authority has covenanted in the 2011 Resolution and in each Indenture that it will not, subsequent to the date hereof, intentionally use any portion of the proceeds of the Bonds to acquire higher yielding investments or to replace funds which were used directly or indirectly to acquire higher yielding investments, except as may be otherwise permitted by Section 148 of the Internal Revenue Code of 1986, as amended (the "Code"), and that it will comply with the arbitrage rebate requirements of Section 148(f) of the Code. Failure to comply with these covenants could result in interest on the Bonds being includable in gross income for federal income tax purposes retroactive to the date of issuance.

Based on the foregoing, we are of the opinion that:

(a) The Authority is a body corporate and politic and an instrumentality and public corporation of the State of Georgia with all necessary right, power and authority to adopt the 2011 Resolution, to execute and deliver the Indentures and the Escrow Deposit Agreements and to perform its obligations thereunder, and to issue the Bonds of each series pursuant to the 2011 Resolution and the respective Indentures.

(b) The 2011A First Supplemental Indenture and the 2011B First Supplemental Indenture have each been duly authorized by the Authority pursuant to the 2011 Resolution and have been executed and delivered by the Authority and the 2001 Indenture and the 2003 Indenture each constitute the legal, valid and binding obligation of the Authority in accordance with its terms.

(c) The Escrow Deposit Agreements have each been duly authorized by the Authority pursuant to the 2011 Resolution, have been executed and delivered by the Authority and constitutes the legal, valid and binding obligations of the Authority in accordance with its terms.

(d) The Bonds of each series have been duly and lawfully issued by the Authority as guaranteed revenue obligations under the Constitution and laws of the State of Georgia and constitute the legally valid and binding revenue obligations of the Authority, payable from the Trust Estate pledged under the respective Indenture. The State of Georgia has guaranteed payment in full of the Bonds of each series and the interest thereon in accordance with their terms and the terms of the respective Indenture and has pledged the full faith, credit and taxing power of the State to such payment.

(e) Under the Constitution of the State of Georgia, the General Assembly of the State of Georgia, prior to the issuance of guaranteed revenue obligations, is required to appropriate an amount at least equal to the highest annual debt service requirements for such issue. Each appropriation is required to be paid upon the issuance of said obligations into a special trust fund designated as the "State of Georgia Guaranteed Revenue Debt Common Reserve Fund" (the "Common Reserve Fund") to be held together with all other sums similarly appropriated as a common reserve for any payments which may be required by virtue of any guarantee entered into in connection with any issue of guaranteed revenue obligations. If any payments are required to be made from the Common Reserve Fund to meet debt service requirements on guaranteed revenue obligations by virtue of an insufficiency of revenues, the amount necessary to cure the deficiency is required to be paid from the Common Reserve Fund by the appropriate state fiscal officer. The Constitution of Georgia also provides that upon any such payment, the Common Reserve Fund will be reimbursed from the general funds of the State within 10 days following the commencement of any fiscal year of the State for any amounts so paid; provided, however, the obligation of the State to make any such reimbursements will be subordinate to the obligation imposed upon the fiscal officers of the State as set forth in Paragraph III of Section IV of Article VII of the Constitution with respect to contracts of the State securing obligations heretofore issued by various State of Georgia authorities and now outstanding and will also be subordinate to the obligation to make sinking fund deposits for the benefit of general obligation debt of the State.

The amount to the credit of the Common Reserve Fund is required at all times to be at least equal to the aggregate highest annual debt service requirements on all outstanding guaranteed revenue obligations entitled to the benefit of the Common Reserve Fund.

(f) The interest on the Bonds is exempt from present State of Georgia income taxation.

(g) Assuming compliance with the above-described covenants, based on existing statutes, regulations, rulings and court decisions, interest on the Bonds (including any original issue discount properly allocable to a holder thereof) is excluded 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; provided, however, with respect to corporations (as defined for federal income tax purposes), such interest is taken into account in determining adjusted current earnings for the purpose of computing the federal alternative minimum tax imposed on such corporations. We express no opinion regarding other federal tax consequences arising with respect to the Bonds.

The rights and remedies of the owners of the Bonds and the enforceability of the Bonds and of the Indentures and the Escrow Deposit Agreements may be limited or affected by bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting the enforcement of creditors' rights and may also be subject to the exercise of judicial discretion in appropriate cases.

Very truly yours,

SUTHERLAND ASBILL & BRENNAN LLP

By:

<u>APPENDIX G</u>

OFFICIAL NOTICE OF SALE

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OFFICIAL NOTICE OF SALE

$355,135,000*
STATE ROAD AND TOLLWAY AUTHORITY
STATE OF GEORGIA (FULL FAITH AND CREDIT)
$203,460,000* GUARANTEED REVENUE REFUNDING BONDS, SERIES 2011A
$151,675,000* GUARANTEED REVENUE REFUNDING BONDS, SERIES 2011B

All or none ("AON") bids will be received electronically (as described in further detail below) by the State Road and Tollway Authority (the "Authority") for the purchase through a single bid of the State Road and Tollway Authority State of Georgia (Full Faith and Credit) (i) $203,460,000* Guaranteed Revenue Refunding Bonds, Series 2011A (the "2011A Bonds") and (ii) $151,675,000* Guaranteed Revenue Refunding Bonds, Series 2011B (the "2011 B Bonds" and collectively with the 2011A Bonds, the "2011 Refunding Bonds"). Bids will be received via **PARITY®**, until **10:30 AM ET, on Wednesday, March 9, 2011.**

DESCRIPTION OF THE BONDS

The 2011 Refunding Bonds will be dated the date of delivery, expected to be March 31, 2011, and will be issued in book-entry form only as fully registered bonds in denominations of $5,000 each or any integral multiple thereof. Principal and semiannual interest are payable by the designated corporate trust office of U.S. Bank National Association, as Paying Agent, (the "Paying Agent"). For the 2011A Bonds, interest is payable each March 1 and September 1 with the first interest payment due on September 1, 2011. For the 2011B Bonds, interest is payable each April 1 and October 1, with the first interest payment due on October 1, 2011. The 2011A Bonds mature on March 1 and the 2011B Bonds mature on October 1 and bear the rate of interest as follows:

Series 2011A Bonds

Maturing March 1	Coupon*	Principal*
2013	4.000%	$13,155,000
2014	5.000	19,710,000
2015	5.000	20,745,000
2016	5.000	21,840,000
2017	5.000	23,070,000
2018	5.000	24,345,000
2019	5.000	25,565,000
2020	5.000	26,845,000
2021	5.000	28,185,000
Total Bonds		$203,460,000

Series 2011B Bonds

Maturing October 1	Coupon*	Principal*
2015	5.000%	$14,550,000
2016	5.000	16,775,000
2017	5.000	17,635,000
2018	5.000	18,540,000
2019	5.000	19,490,000
2020	5.000	20,490,000
2021	5.000	21,545,000
2022	5.000	22,650,000
Total Bonds		$151,675,000

SERIAL BONDS

All of the 2011 Refunding Bonds will be serial bonds.

* Preliminary, subject to change.

ADJUSTMENT OF PRINCIPAL AMOUNT OF THE BONDS

The schedule of maturities set forth above for the 2011 Refunding Bonds (the "2011 Refunding Bonds Initial Maturity Schedule") represents an estimate of the principal amount of 2011 Refunding Bonds that will be sold. The Authority reserves the right to change the 2011 Refunding Bonds Initial Maturity Schedule, based on market conditions immediately prior to the sale, by announcing any such change not later than 9:00AM ET on the day of the sale via notification published on www.tm3.com ("TM3") and communicated to PARITY®. The resulting schedule of maturities (the "2011 Refunding Bonds Bid Maturity Schedule") may or may not be identical to the 2011 Refunding Bonds Initial Maturity Schedule. Furthermore, if no such change is announced, the 2011 Refunding Bonds Initial Maturity Schedule will become the 2011 Refunding Bonds Bid Maturity Schedule.

The Authority reserves the right to change the 2011 Refunding Bonds Bid Maturity Schedule, after determination of the winning bidder, by increasing or decreasing the aggregate principal amount by an amount not to exceed 10% of the stated aggregate principal amount on the 2011 Refunding Bonds Bid Maturity Schedule. In such event, the dollar amount bid by the successful bidder will be adjusted to reflect any adjustment in the aggregate principal amount of the 2011 Refunding Bonds. Such adjusted bid price will reflect changes in the dollar amount of the underwriter's discount and original issue discount/premium, if any, but will not change the selling compensation per $1,000 of par amount of 2011 Refunding Bonds from the selling compensation that would have been received based on the purchase price in the winning bid and the provided reoffering prices.

The successful bidder may not withdraw its bid or change interest rates bid for the 2011 Refunding Bonds as a result of any changes made to the principal amounts of each maturity in accordance with the aforementioned terms. The Authority will notify the successful bidder of any adjustment to the 2011 Refunding Bonds Bid Maturity Schedule not later than 4:00 PM ET, on the day of the sale.

RIGHT TO CHANGE THE SALE AND SUPPLEMENT NOTICE OF SALE

The Authority reserves the right to change, from time to time, the date and/or time established for the receipt of bids. A postponement of the bid date will be announced via TM3 not later than 9:00AM ET, on the announced date for receipt of bids, and an alternative sale date and time will be announced via TM3 by 3:00PM ET (or 3:00PM EDT, as the case may be), at least one business day prior to such alternative date and time for receipt of bids.

On such alternative date and time for receipt of bids, the Authority will accept electronic bids for the purchase of the 2011 Refunding Bonds, such bids to conform in all respects to the provisions of this Official Notice of Sale, except for the changes in the date and time for receipt of bids and any other changes announced via TM3 when the date and time for receipt of bids are announced.

In addition, any other information in connection with the offer and sale of the 2011 Refunding Bonds will be given to prospective bidders via TM3 not later than 9:00AM ET on the announced date for receipt of bids (or 9:00AM EDT, as the case may be) and any such supplemental information shall be deemed a part of this Official Notice of Sale.

BOOK ENTRY

The 2011 Refunding Bonds will be issued in book-entry form, as more fully described in the Preliminary Official Statement. Beneficial owners of the 2011 Refunding Bonds will not receive physical delivery of 2011 Refunding Bond certificates. Principal and interest payments on the 2011 Refunding Bonds will be made to Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York, which will act as depository for the 2011 Refunding Bonds. Such payments then will be distributed to the participating members of DTC, and by such participating members to the beneficial owners of the 2011 Refunding Bonds.

OPTIONAL REDEMPTION

The 2011 Refunding Bonds will not be subject to optional redemption.

AUTHORIZATION AND SECURITY

The 2011 Refunding Bonds will be issued and secured pursuant to the authority granted by the Constitution and laws of the State and under the provisions of (1) in the case of the 2011A Bonds, a Joint Resolution (the "2001 Joint Resolution") adopted by the State Transportation Board on November 15, 2001, and by the members of the Authority on November 19, 2001, and in the case of the 2011B Bonds, a Joint Resolution (the "2003 Joint Resolution") adopted by the State Transportation Board on September 10, 2003, and by the members of the Authority on September 18, 2003, (2) a resolution adopted by the State Transportation Board on January 20, 2010, and (3) a Bond Resolution to be adopted by the members of the Authority on March 10, 2011 (the "Bond Resolution"). The issuance of the 2011 Refunding Bonds and the guarantee thereof in accordance with the Constitution and laws of the State will be approved by the Georgia State Financing and Investment Commission (the "Commission") by a resolution to be adopted by the members of the Commission on March 10, 2011 (the "Commission Resolution").

DELIVERY AND PAYMENT

Delivery of the 2011 Refunding Bonds will be made in New York, New York as soon as the 2011 Refunding Bonds can be validated and prepared, which is estimated to be on or about March 31, 2011. However, the purchaser shall allow 50 days from the date of acceptance of bids for delivery. Payment for the 2011 Refunding Bonds shall be made in federal funds.

CUSIP NUMBERS AND DTC ELIGIBILITY

It is anticipated that CUSIP numbers will be printed on the 2011 Refunding Bonds, but neither the failure to print such numbers on any 2011 Refunding Bond nor any error with respect thereto shall constitute cause for a failure or refusal by the successful bidder to accept delivery of and make payment for the 2011 Refunding Bonds. It will be the responsibility of the successful bidder to timely obtain and pay for the assignment of such CUSIP numbers.

It is anticipated that the 2011 Refunding Bonds will be eligible for custodial deposit with DTC; however, it will be the responsibility of the successful bidder to obtain such eligibility. Failure of the successful bidder to obtain DTC eligibility will not constitute cause for failure or refusal by the successful bidder to accept delivery of and pay for the 2011 Refunding Bonds in accordance with its bid and agreement to purchase the 2011 Refunding Bonds.

LEGAL OPINIONS AND CLOSING CERTIFICATES

The 2011 Refunding Bonds are offered subject to validation by the Superior Court of Fulton County, Georgia, and delivery will be accompanied by an execution, signature and no-litigation certificate, and non-arbitrage certificate. The legality of the proceedings and the 2011 Refunding Bonds will be approved by Sutherland, Asbill & Brennan LLP, Atlanta, Georgia, Bond Counsel, the cost of whose approving opinion shall be paid by the Authority. The Authority also will furnish to the successful bidder at the closing of the purchase of the 2011 Refunding Bonds: (i) a certificate of authorized officers of the Authority to the effect that, to the best knowledge, information, and belief of such officers, the Preliminary Official Statement used in connection with the 2011 Refunding Bonds did not on the date of sale, and the final Official Statement does not on the date of delivery, contain any misstatement of a material fact or omit to state a material fact necessary to make the statements therein contained, in light of the circumstances under which they were made, not misleading; and (ii) an opinion of McKenna Long & Aldridge LLP, Atlanta, Georgia, disclosure counsel to the Authority, to the effect that their performance of certain services, their participation in certain discussions, and their examination of certain factual certifications and legal opinions did not disclose to them any information that would lead them to believe that the Preliminary Official Statement or the Official Statement (other than the information under the heading "DESCRIPTION OF THE BONDS—Book-Entry System" and the financial statements and related notes and other financial and statistical data included therein, as to which they will express no view) contains any untrue statement of a material fact or omits to state a material fact necessary to make the statements therein made, in light of the circumstances under which they were made, not misleading.

CONTINUING DISCLOSURE

A Preliminary Official Statement for the 2011 Refunding Bonds has been prepared by the Authority. The Preliminary Official Statement is deemed by the Authority to be final for the purposes of compliance with Rule 15c2-12 of the Securities and Exchange Commission ("Rule 15c2-12"), except for certain omissions permitted thereunder. In order to assist bidders in complying with paragraph (b)(5) of Rule 15c2-12, the Authority and the State will undertake, pursuant to the resolutions authorizing the issuance of the 2011 Refunding Bonds and Continuing Disclosure Certificates delivered simultaneously with the 2011 Refunding Bonds, to provide annual reports and notices of certain events in accordance with the provisions of Rule 15c2-12. Forms of the Continuing Disclosure Certificates for both the Authority and the State are set forth in appendices D and E of the Preliminary Official Statement and will be set forth in the final Official Statement. Neither the Authority's or the State's failure to deliver the Continuing Disclosure Certificate on the date of issuance and delivery of the 2011 Refunding Bonds shall relieve the successful bidder of its obligation to purchase the 2011 Refunding Bonds.

GOOD FAITH DEPOSIT

The successful bidder is required to submit a good faith deposit of $2,000,000 (the "Deposit") to the Authority upon the Verbal Award, as defined below. The Deposit will be in the form of a wire transfer in immediately available funds and must be received no later than 4:00PM ET (or 4:00PM EDT, as the case may be) on the date of the Verbal Award by the Authority. The Authority will provide wire transfer instructions to the successful bidder within two business hours of the verbal award via ***PARITY***®. The Deposit of the successful bidder will be deposited by the Authority, invested for its own account, credited to the purchase price of the 2011 Refunding Bonds, held as a security for the performance by the successful bidder of its bid, and no interest or other earnings on the Deposit will be paid or otherwise credited to the successful bidder. Proceeds of the Deposit and any investment income will be retained by the Authority as liquidated damages, in whole or in part, should the successful bidder fail to comply with the terms of the bid.

BIDDING PROCEDURES

Bids must be submitted electronically for the purchase of the 2011 Refunding Bonds (all or none) by means of the "State Road and Tollway Authority AON Bid Form" via ***PARITY***® until 10:30AM ET, on Wednesday, March 9, 2011. By submitting a bid for the 2011 Refunding Bonds, a bidder represents and warrants to the Authority that such bidder's bid is submitted for and on behalf of such bidder by an officer or agent who is duly authorized to bind the bidder to a legal, valid and enforceable contract for the purchase of the 2011 Refunding Bonds. Once the bids are communicated electronically via ***PARITY***® to the Authority, each bid will constitute an irrevocable offer to purchase the 2011 Refunding Bonds on the terms herein and therein provided. For purposes of the electronic bidding process, the time as maintained on the ***PARITY***® system shall constitute the official time. The Authority reserves the right to reject any and all bids and to waive any informalities in any and all bids.

DISCLAIMER

Each bidder shall be solely responsible for making the necessary arrangements to access the PARITY® system for purposes of submitting its bid in a timely manner and in compliance with the requirements of this Official Notice of Sale. Neither the Authority nor PARITY® shall have any duty or obligation to provide or assure such access to any bidder, and neither the Authority nor PARITY® shall be responsible for the proper operation of, or have any liability for, any delays or interruptions of, or any damages caused by, the PARITY® system. The Authority is authorizing the use of PARITY® as a communication mechanism to conduct the electronic bidding for the 2011 Refunding Bonds; the owners of such services are not agents of the Authority. The Authority is not bound by any advice and determination of PARITY® to the effect that any particular bid complies with the terms of this Official Notice of Sale and in particular the specifications set forth in "BID SPECIFICATIONS" AND "BASIS OF AWARD" below. All costs and expenses incurred by bidders in connection with their registration via PARITY® are the sole responsibility of such bidders.

BID SPECIFICATIONS

The rate of interest for all maturities of the 2011A Bonds and the 2011B Bonds shall be set as shown in the 2011 Refunding Bonds Bid Maturity Schedule. There will be no maximum or minimum dollar price.

BASIS OF AWARD

The 2011 Refunding Bonds will be awarded to the bidder submitting a bid in conformance with this Official Notice of Sale that produces the lowest true interest cost (TIC) to the Authority based on the combined bids received for both the 2011A Bonds and the 2011B Bonds. The true interest cost (expressed as an annual interest rate) will be the rate necessary, when using a 360-day year and semiannual compounding, to discount the aggregate debt service payments from the payment dates to the date of the 2011 Refunding Bonds and to the aggregate price bid.

In case of a tie, the 2011 Refunding Bonds will be awarded to the bidder whose bid was submitted first. The time as maintained on the ***PARITY***® system shall constitute the official time. In the case of a tie with the time, the 2011 Refunding Bonds will be awarded by lot.

AWARD OF THE 2011 REFUNDING BONDS

The Authority will notify the apparent successful bidder as soon as possible after bids have been received and verified (the "Verbal Award"), that such bidder's bid is the lowest and best bid received which conforms to the requirements of this Official Notice of Sale, subject to verification and official action by the Authority. The award of the 2011 Refunding Bonds will be considered at the Authority meeting to be held beginning at 8:00AM ET, on March 10, 2011 and the Commission meeting to be held beginning at 9:00AM ET, on March 10, 2011, and the Authority's and Commission's acceptance of the winning bid shall be made to the successful bidder as promptly as possible.

UNDERTAKINGS OF THE SUCCESSFUL BIDDER

The successful bidder shall make a bona fide public offering of all the 2011 Refunding Bonds of each maturity and shall, within 30 minutes of being notified of the award of the 2011 Refunding Bonds, advise the Authority in writing (via facsimile transmission) of the initial public offering prices of the 2011 Refunding Bonds (the "Initial Reoffering Prices"). The successful bidder must, by facsimile transmission or delivery received by the Authority within 24 hours after notification of the award, furnish the following information to the Authority [Bond Counsel] to complete the Official Statement in final form, as described below:

A. Selling compensation (aggregate total anticipated compensation to the underwriters expressed in dollars, based on the expectation that all 2011 Refunding Bonds are sold at the prices or yields at which the successful bidder advised the Authority that the 2011 Refunding Bonds were initially offered to the public).

B. The identity of the underwriters if the successful bidder is part of a group or syndicate.

C. Any other material information the Authority determines is necessary to complete the Official Statement in final form.

On or prior to the date of delivery of the 2011 Refunding Bonds, the successful bidder shall furnish to the Authority a certificate acceptable to Bond Counsel to the Authority generally to the effect that (i) as of March 9, 2011 (the "Sale Date"), the successful bidder offered all of the 2011 Refunding Bonds of each maturity to the general public (excluding bond houses, brokers, or similar persons acting in the capacity of underwriters or wholesalers) in a bona fide public offering at the prices set forth in such certificate, (ii) such prices represent fair market prices of the 2011 Refunding Bonds as of the Sale Date, and (iii) as of the Sale Date, all of the 2011 Refunding Bonds have been offered to the general public in a bona fide offering at the prices set forth in such certificate, and at least 10% of each maturity of the 2011 Refunding Bonds actually has been sold to the general public at such prices. To the extent the certifications described in the preceding sentence are not factually accurate with respect to the reoffering of the 2011 Refunding Bonds, Bond Counsel should be consulted by the bidder as to alternative certifications that will be suitable to establish the "issue price" of the 2011 Refunding Bonds for federal tax law purposes. For example, to the extent that, as of the Sale Date, less than 10% of any particular maturity was actually sold to the general public at the price of set forth in such certificate, the successful bidder will be expected to (i) certify that based on the reasonable expectations of the successful bidder, the successful bidder expected to sell at least 10% of such maturity at the price set forth in such certificate and (ii) certify as to the facts and circumstances which occurred resulting in at least 10% of such maturity not being sold to the general public at the price set forth in such certificate.

OFFICIAL STATEMENT

The Authority will prepare and provide to the Purchaser, within seven (7) business days after the sale, a sufficient number of copies of the final Official Statement to enable the Purchaser to comply with Rule 15c2-12. The final Official Statement will be in substantially the same form as the Preliminary Official Statement, subject to any additions, deletions, or revisions that the Authority believes are necessary.

ADDITIONAL INFORMATION

Preliminary Official Statements may be obtained via the Internet at www.i-dealprospectus.com. Printed copies are available upon request by calling i-Deal Prospectus at (212) 404-8104, or the Authority at (404) 893-6100 or fax (404) 893-6144.

State Road and Tollway Authority
47 Trinity Avenue, 4th Floor
Atlanta, Georgia 30334

March 2, 2011