

PRELIMINARY OFFICIAL STATEMENT DATED AUGUST 11, 2011

This document is "deemed final" by the Issuer as of its date for purposes of, and except for certain omissions permitted by, SEC Rule 15c2-12(b)(1).

Refunding Issue- Book-Entry Only

This Official Statement has been prepared by the Division of Bond Finance to provide information about the Series 2011A Bonds. Selected information is presented on this cover page for the convenience of the reader. *To make an informed decision, a prospective investor should read this Official Statement in its entirety.* Unless otherwise indicated, capitalized terms have the meanings given in Appendix B.

\$225,510,000*

**STATE OF FLORIDA
State Board of Education**

Lottery Revenue Refunding Bonds, Series 2011A

Dated: Date of Delivery **Due:** July 1, as shown on the inside front cover

| | |
|---|---|
| Bond Ratings | ____ Fitch Ratings ____ Moody's Investors Service ____ Standard & Poor's Ratings Services |
| Tax Status | In the opinion of Bond Counsel, interest on the Series 2011A Bonds will be excluded from gross income for federal income tax purposes and will not be an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. However, interest on the Series 2011A Bonds will be taken into account in determining adjusted current earnings for purposes of computing the alternative minimum tax on corporations. The Series 2011A Bonds and the income thereon are not subject to taxation under the laws of the State of Florida, except estate taxes and taxes under Chapter 220, Florida Statutes, as amended. See "TAX MATTERS" herein for a description of other tax consequences to holders of the Series 2011A Bonds. |
| Redemption | The Series 2011A Bonds are not subject to redemption. |
| Security | The Series 2011A Bonds are payable from the Pledged Revenues consisting of lottery revenues deposited in the Educational Enhancement Trust Fund and certain other funds held pursuant to the Resolution. The Series 2011A Bonds are not a general obligation or indebtedness of the State of Florida, and the full faith and credit of the State of Florida is not pledged to payment of the Series 2011A Bonds. |
| Lien Priority | The lien of the Series 2011A Bonds on the Pledged Revenues is a first lien on such revenues and will be on a parity with the currently Outstanding Bonds and any Additional Bonds hereafter issued. The aggregate principal amount of Outstanding Bonds subsequent to the issuance of the Series 2011A Bonds is anticipated to be \$3,129,403,000*, including the principal amount of \$414,595,000* of refunded bonds that either have been or will be economically but not legally defeased. See "SECURITY FOR THE SERIES 2011A BONDS - Outstanding Bonds" below. |
| Additional Bonds | Additional Bonds payable on a parity with the Series 2011A Bonds may be issued if historical Pledged Revenues exceed 300% of maximum annual debt service. This description of the requirements for the issuance of Additional Bonds is only a summary of the complete requirements. See "ADDITIONAL BONDS" herein for more complete information. |
| Purpose | Proceeds of the Series 2011A Bonds are being used to refund all or a portion of previously issued State of Florida, State Board of Education Lottery Revenue Bonds, Series 2002C and Series 2003A, and to pay costs of issuance. |
| Interest Payment Dates | January 1 and July 1, commencing January 1, 2012. |
| Record Dates | December 15 and June 15. |
| Form/Denomination | The Series 2011A Bonds will initially be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). Individual purchases will be made in book-entry form only through Direct Participants (defined herein) in denominations of \$1,000 and integral multiples thereof. Purchasers of the Series 2011A Bonds will not receive physical delivery of the Series 2011A Bonds. |
| Closing/Settlement | It is anticipated that the Series 2011A Bonds will be available for delivery through the facilities of DTC in New York, New York approximately three weeks from the date bids are received. |
| Bond Registrar/ Paying Agent | U.S. Bank Trust National Association, New York, New York. |
| Bond Counsel | Bryant Miller Olive P.A., Tallahassee, Florida. |
| Issuer Contact | Division of Bond Finance, (850) 488-4782, bond@sbafla.com |
| Maturity Structure | The Series 2011A Bonds will mature on the dates and bear interest at the rates set forth on the inside front cover. |

*Preliminary, subject to change.

This is a Preliminary Official Statement, subject to amendment and completion. These Bonds may not be sold and offers to buy may not 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 the 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 any such

MATURITY STRUCTURE

| <u>Initial CUSIP</u> © | <u>Due Date</u> | <u>Principal Amount*</u> | <u>Interest Rate</u> | <u>Price or Yield</u> |
|----------------------------|-----------------|------------------------------|--------------------------|---------------------------|
| | July 1, 2014 | \$22,165,000 | | |
| | July 1, 2015 | 23,160,000 | | |
| | July 1, 2016 | 24,200,000 | | |
| | July 1, 2017 | 25,290,000 | | |
| | July 1, 2018 | 26,425,000 | | |
| | July 1, 2019 | 27,620,000 | | |
| | July 1, 2020 | 28,865,000 | | |
| | July 1, 2021 | 30,160,000 | | |
| | July 1, 2022 | 17,625,000 | | |

**BIDS FOR THE SERIES 2011A BONDS WILL BE RECEIVED
AS PROVIDED IN THE NOTICE OF BOND SALE**

* Preliminary, subject to change.

The State of Florida has not authorized any dealer, broker, salesman or other person 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 must not be relied on. Certain information herein has been obtained from sources other than records of the State of Florida which are believed to be reliable, but it is not guaranteed as to accuracy or completeness by, and it is not to be construed as a representation by, the State of Florida. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder will, under any circumstances, create any implication that there has been no change in the affairs of the State of Florida since the date hereof. 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 Series 2011A Bonds by any person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale.

STATE OFFICIALS

GOVERNING BOARD OF THE DIVISION OF BOND FINANCE

GOVERNOR
RICK SCOTT
Chairman

ATTORNEY GENERAL
PAM BONDI
Secretary

CHIEF FINANCIAL OFFICER
JEFF ATWATER
Treasurer

COMMISSIONER OF AGRICULTURE
ADAM H. PUTNAM

STATE BOARD OF EDUCATION

GARY CHARTRAND
AKSHAY DESAI
BARBARA FEINGOLD

ROBERTO MARTINEZ
JOHN R. PADGET
KATHLEEN SHANAHAN

COMMISSIONER OF EDUCATION
GERARD ROBINSON

J. BEN WATKINS III
Director
Division of Bond Finance

ASHBEL C. WILLIAMS
Executive Director and CIO
State Board of Administration of Florida

BOND COUNSEL
Bryant Miller Olive P.A.
Tallahassee, Florida

(This page intentionally left blank)

TABLE OF CONTENTS

| | <u>PAGE</u> |
|--|-------------|
| INTRODUCTION | 1 |
| AUTHORITY FOR THE ISSUANCE OF THE SERIES 2011A BONDS | 2 |
| General Legal Authority | 2 |
| State Board of Education | 2 |
| Division of Bond Finance | 2 |
| State Board of Administration of Florida | 2 |
| Administrative Approval | 2 |
| DESCRIPTION OF THE SERIES 2011A BONDS | 3 |
| REDEMPTION PROVISIONS | 3 |
| REFUNDING PROGRAM | 3 |
| ESTIMATED SOURCES AND USES OF FUNDS | 4 |
| SECURITY FOR THE SERIES 2011A BONDS | 4 |
| Pledge of Lottery Revenues | 4 |
| Statutorily Required Distributions of Lottery Revenues | 4 |
| Debt Service Reserve Account | 5 |
| Outstanding Bonds | 5 |
| Future Bonding | 6 |
| Flow of Funds | 6 |
| Covenants with Registered Owners | 7 |
| ADDITIONAL BONDS | 8 |
| FLORIDA LOTTERY | 9 |
| General | 9 |
| Administration | 9 |
| Current Games | 10 |
| Retail Distribution Network | 13 |
| Scratch-Off Ticket Service Provider | 13 |
| On-Line Service Provider | 13 |
| Marketing | 14 |
| Business Development | 14 |
| Information Systems | 15 |
| Lottery Security | 15 |
| Competition | 16 |
| Business Risks | 17 |
| DEPARTMENT | 17 |
| Budgetary Process | 17 |
| Transfers to the Educational Enhancement Trust Fund | 18 |
| Historical Summary of Revenues, Expenses and Transfers to the Educational Enhancement Trust Fund | 19 |
| Historical Summary of Statement of Net Assets Information | 20 |
| Summary of Operating Revenues and Expenses and Transfers to Educational Enhancement Trust Fund for the Nine Months Ended March 31 | 21 |
| Statement of Net Assets for the Nine Months Ended March 31, 2011 | 22 |
| Economic Factors and Strategic Plans | 25 |
| Projected Revenues | 26 |
| Debt Service Coverage Ratios | 27 |
| SCHEDULE OF ESTIMATED DEBT SERVICE | 29 |
| PROVISIONS OF STATE LAW | 29 |
| Bonds Legal Investment for Fiduciaries | 29 |
| Negotiability | 30 |
| TAX MATTERS | 30 |

| | |
|---|----|
| INDEPENDENT AUDITORS | 31 |
| MISCELLANEOUS | 32 |
| Investment of Funds | 32 |
| Bond Ratings | 33 |
| Verification of Mathematical Calculations | 34 |
| Litigation | 34 |
| Legal Opinion and Closing Certificates | 34 |
| Continuing Disclosure | 34 |
| Underwriting | 34 |
| Execution of Official Statement | 35 |

| | |
|--|--------------------|
| | <u>PAGE</u> |
| APPENDIX A - State of Florida | A-1 |
| APPENDIX B - Definitions | B-1 |
| APPENDIX C - Original Resolution | C-1 |
| APPENDIX D - Ninth Supplemental Resolution | D-1 |
| APPENDIX E - Audited Financial Statements of the Department of the Lottery | E-1 |
| APPENDIX F - Form of Bond Counsel Opinion | F-1 |
| APPENDIX G - Form of Continuing Disclosure Agreement | G-1 |
| APPENDIX H - Provisions for Book-Entry Only System or Registered Bonds | H-1 |

OFFICIAL STATEMENT
Relating to
\$225,510,000*
STATE OF FLORIDA
State Board of Education
Lottery Revenue Refunding Bonds, Series 2011A

For definitions of capitalized terms not defined in the text hereof, see Appendix B.

INTRODUCTION

This Official Statement sets forth information relating to the sale and issuance of the \$225,510,000* State of Florida, State Board of Education Lottery Revenue Refunding Bonds, Series 2011A (the "Series 2011A Bonds"), dated the date of delivery thereof, by the Division of Bond Finance of the State Board of Administration of Florida (the "Division of Bond Finance").

Proceeds of the Series 2011A Bonds will be used to refund all or a portion of the previously issued State of Florida, State Board of Education Lottery Revenue Bonds, Series 2002C and Series 2003A (collectively, the "Refunded Bonds"), and to pay costs of issuance. The refunding is being effectuated to achieve debt service savings due to lower interest rates. See "PURPOSE OF THE ISSUE" below for more detailed information.

The Series 2011A Bonds are payable from the Pledged Revenues consisting of lottery revenues deposited in the Educational Enhancement Trust Fund and certain other funds held pursuant to the Resolution. The lien of the Series 2011A Bonds on the Pledged Revenues is the first lien on such revenues and will be on a parity with previously issued Bonds and any Additional Bonds hereafter issued. The aggregate principal amount of Outstanding Bonds subsequent to the issuance of the Series 2011A Bonds is anticipated to be \$3,129,403,000*, including the principal amount of refunded bonds of \$414,595,000* that either have been or will be economically but not legally defeased. **The Series 2011A Bonds are not secured by the full faith and credit of the State of Florida.** See "SECURITY FOR THE SERIES 2011A BONDS" below for more detailed information.

Requests for additional information may be made to:

Division of Bond Finance
Phone: (850) 488-4782
Fax: (850) 413-1315
E-mail: bond@sbafla.com
Mail: P. O. Box 13300
Tallahassee, Florida 32317-3300

This Official Statement speaks only as of its date, and the information contained herein is subject to change. Any statements made in this Official Statement which involve opinions or estimates, whether or not expressly stated, are set forth as such and not as representations of fact. No representation is made that any of the opinions or estimates will be realized. To make an informed decision, a full review should be made of the entire Official Statement. The descriptions of the Series 2011A Bonds and the documents authorizing and securing the same do not purport to be comprehensive or definitive. All references to and descriptions of such documents are qualified by reference to the actual documents. Copies of such documents may be obtained from the Division of Bond Finance.

End of Introduction

*Preliminary, subject to change.

AUTHORITY FOR THE ISSUANCE OF THE SERIES 2011A BONDS

General Legal Authority

The Series 2011A Bonds are being issued pursuant to the authority granted by the Florida Constitution and laws of the State of Florida and resolutions of the State Board of Education (the “Board of Education”) and the Division of Bond Finance, all as more specifically described herein. Article VII, Section 11(d), of the Florida Constitution provides that revenue bonds payable solely from funds derived directly from sources other than State tax revenues may be issued by the State or its agencies, without a vote of the electors, to finance or refinance capital projects. Sections 215.59(2) and 215.69, Florida Statutes, authorize the issuance of revenue bonds and the refunding of such bonds by the Division of Bond Finance pursuant to Article VII, Section 11(d), of the Florida Constitution.

State Board of Education

The Board of Education is established by Article IX, Section 2 of the Florida Constitution. It consists of seven members appointed by the Governor to staggered four-year terms, subject to confirmation by the Florida Senate. There is currently one vacancy on the Board of Education. The Commissioner of Education is appointed by the Board of Education. Gerard Robinson is currently serving as Commissioner.

The following individuals have been appointed by the Governor to the State Board of Education:

| <u>Board Member</u> | <u>Term Expires</u> |
|---|----------------------------|
| Gary Chartrand - businessman (Ponte Vedra Beach, FL) | December 31, 2014 |
| Akshay Desai - physician (St. Petersburg, FL) | December 31, 2013 |
| Barbara Feingold - businesswoman (Delray Beach, FL) | December 31, 2013 |
| Roberto Martinez - attorney (Coral Gables, FL) | December 31, 2012 |
| John R. Padgett - private equity investor and philanthropist (Key West, FL) | December 31, 2012 |
| Kathleen Shanahan - businesswoman (Tampa, FL) | December 31, 2013 |

Division of Bond Finance

The Division of Bond Finance, a public body corporate created pursuant to the State Bond Act, is authorized to issue bonds on behalf of the State or its agencies. The Governing Board of the Division of Bond Finance (the “Governing Board”) is composed of the Governor, as Chairman, and the Cabinet of the State of Florida, consisting of the Attorney General, as Secretary, the Chief Financial Officer, as Treasurer, and the Commissioner of Agriculture. The Director of the Division of Bond Finance may serve as an assistant secretary of the Governing Board.

State Board of Administration of Florida

The State Board of Administration of Florida (the “Board of Administration”) was created under Article IV, Section 4, of the Constitution of the State of Florida, as revised in 1968 and subsequently amended, and succeeds to all the power, control and authority of the state board of administration established pursuant to Article IX, Section 16, of the Constitution of the State of Florida of 1885. It will continue as a body at least for the life of Article XII, Section 9(c) of the Florida Constitution. The Board of Administration is composed of the Governor, as Chairman, the Chief Financial Officer and the Attorney General. Under the State Bond Act, the Board of Administration determines the fiscal sufficiency of all bonds proposed to be issued by the State of Florida or its agencies. The Board of Administration also acts as the fiscal agent of the Board of Education in administering the Sinking Fund, the Rebate Fund, and the Debt Service Reserve Account.

Administrative Approval

The State Board of Education requested the Division of Bond Finance to issue the Series 2011A Bonds by resolutions adopted on February 19, 2008, June 15, 2010, and August 23, 2010.

The Governor and Cabinet of the State of Florida, as the Governing Board of the Division of Bond Finance (the "Governing Board"), authorized the issuance of not exceeding \$4.4 billion State of Florida, State Board of Education Lottery Revenue Bonds (the "Bonds"), by a resolution adopted on December 16, 1997, which was amended, supplemented and restated on December 18, 2007, as amended and supplemented from time to time (the "Original Resolution"). The Original Resolution is included herein as Appendix C. The Governing Board authorized the issuance and sale of State of Florida, State Board of Education Lottery Revenue Refunding Bonds for the purpose of refunding certain Outstanding Lottery Revenue Bonds by a supplemental resolution adopted on August 2, 2011 (the "Ninth Supplemental Resolution"). The Ninth Supplemental Resolution is reproduced as Appendix D to this Official Statement. The Original Resolution and the Ninth Supplemental Resolution are referred to collectively as the "Resolution".

The Board of Administration approved the fiscal sufficiency of the Series 2011A Bonds by a resolution adopted on August 2, 2011.

DESCRIPTION OF THE SERIES 2011A BONDS

The Series 2011A Bonds are being issued as fully registered bonds in the denomination of \$1,000 or integral multiples thereof. The Series 2011A Bonds are payable from the Pledged Revenues as described herein. The Series 2011A Bonds will be dated the date of delivery thereof, and will mature as set forth on the inside front cover. Interest is payable on January 1, 2012, for the period from the date of delivery thereof, to January 1, 2012, and semiannually thereafter on January 1 and July 1 of each year until maturity or redemption.

The Series 2011A Bonds will initially be issued exclusively in "book-entry" form. Ownership of one Series 2011A Bond for each maturity (as set forth on the inside front cover), each in the aggregate principal amount of such maturity, will be initially registered in the name of "Cede & Co." as registered owner and nominee for the Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for the Series 2011A Bonds. Individual purchases of the Series 2011A Bonds will be made in book-entry form only, and the purchasers will not receive physical delivery of the Series 2011A Bonds or any certificate representing their beneficial ownership interest in the Series 2011A Bonds. See Appendix H, "Provisions For Book-Entry Only System or Registered Bonds" for a description of DTC, certain responsibilities of DTC, the Division of Bond Finance, the Board of Education and the Bond Registrar/Paying Agent, and the provisions for registration and registration for transfer of the Series 2011A Bonds if the book-entry only system of registration is discontinued.

REDEMPTION PROVISIONS

The Series 2011A Bonds are not subject to redemption.

REFUNDING PROGRAM

The Series 2011A Bonds, together with other legally available moneys, will be used to refund all or a portion of previously issued State of Florida, State Board of Education Lottery Revenue Bonds, Series 2002C maturing in the years 2014* through 2022*, inclusive, in the aggregate outstanding principal amount of \$138,445,000* and Series 2003A maturing in years 2014* through 2021*, inclusive, in the aggregate outstanding principal amount of \$93,900,000*, (collectively, the "Refunded Bonds"), and to pay costs of issuance. This refunding is being effectuated to achieve debt service savings.

Simultaneously with the delivery of the Series 2011A Bonds, an agreement will be entered into to provide for the investment of the proceeds of the Series 2011A Bonds, and the Division of Bond Finance will cause the proceeds of the Series 2011A Bonds, along with other legally available moneys, to be deposited in the State Treasury investment pool, a fund held and invested by the State Treasurer of Florida. The amount initially deposited, together with interest thereon, is expected to be sufficient to pay all semiannual interest payments on the Refunded Bonds accruing through the redemption dates, to make all principal payments on the Refunded Bonds as they become due through the redemption dates, and to pay the redemption premium on the Refunded Bonds on the redemption dates. The Refunded Bonds will be economically defeased only; they will not be legally defeased but will remain Outstanding and will continue to have a claim upon the Pledged Revenues until redeemed.

*Preliminary, subject to change.

The refunded Series 2002A Bonds and Series 2003C Bonds will be called for redemption (by separate redemption notices) on January 1, 2013 and July 1, 2013, respectively, at redemption prices equal to the principal amount thereof with interest due thereon through the redemption dates, plus the required redemption premium equal to one percent of the principal amounts.

ESTIMATED SOURCES AND USES OF FUNDS

The table below presents estimated sources and uses of funds based on certain assumptions as to interest rates, costs of issuance, and the purchase price of the Series 2011A Bonds which will be determined upon the actual pricing of such Bonds.

| | |
|--|----------------------|
| Sources of Funds: | |
| Par Amount of Series 2011A Bonds | \$225,510,000 |
| Plus: Net Premium Bid ¹ | 22,313,985 |
| Available Sinking Fund Moneys | <u>1,928,571</u> |
| Total Sources | <u>\$249,752,556</u> |
| | |
| Uses of Funds: | |
| Deposit of Refunding Proceeds | \$249,365,258 |
| Cost of Issuance | <u>387,298</u> |
| Total Uses | <u>\$249,752,556</u> |

¹ Estimated original issue premium net of underwriter's discount.

See "MISCELLANEOUS - Investment of Funds" for policies governing the investment of various funds.

SECURITY FOR THE SERIES 2011A BONDS

Pledge of Lottery Revenues

The Series 2011A Bonds are payable from and secured by a first lien on the first lottery revenues transferred to the Educational Enhancement Trust Fund pursuant to Section 24.121(2), Florida Statutes (the "Pledged Revenues"). See "THE FLORIDA LOTTERY" and "FINANCIAL DATA OF THE DEPARTMENT" for detailed information regarding the Pledged Revenues. The lien of the Series 2011A Bonds on the Pledged Revenues will be on a parity with the lien of the currently Outstanding Bonds and any Additional Bonds. The aggregate principal amount of Outstanding Bonds subsequent to the issuance of the Series 2011A Bonds is anticipated to be \$3,129,403,000*, including the principal amount of refunded bonds of \$414,595,000* that either have been or will be economically but not legally defeased. See "ADDITIONAL BONDS" below.

The Series 2011A Bonds are "revenue bonds," within the meaning of Article VII, Section 11(d), of the Florida Constitution, and are payable solely from Pledged Revenues. **Neither the full faith and credit nor the taxing powers of the State of Florida or any political subdivision thereof shall be pledged to the payment of the principal of, premium, if any, or interest on the Series 2011A Bonds. The Series 2011A Bonds are payable, as to principal, premium, if any, and interest, solely from the Pledged Revenues, as described in the Resolution.**

Statutorily Required Distributions of Lottery Revenues

The percentage of lottery revenues distributed as prizes and transferred to the Educational Enhancement Trust Fund for education purposes is governed by statute. Commencing July 1, 2005, lottery revenues are statutorily authorized to be distributed as follows: (1) variable percentages of the gross revenue from the sale of online and instant (scratch-off) lottery tickets, as determined by the Department, will be paid as prizes in a manner designed to maximize the amount of funds deposited in the Educational Enhancement Trust Fund; (2) variable percentages of the gross revenue from the sale of online and instant lottery tickets, as determined by the Department, will be deposited in the Educational Enhancement Trust Fund; (3) the remaining funds will be used for the payment of administrative expenses

*Preliminary, subject to change.

of the Department, including all costs incurred in the operation and administration of the lottery and all costs resulting from any contracts entered into for the purchase or lease of goods or services required by the Lottery; and (4) the unencumbered balance which remains after such payments at the end of the fiscal year will be transferred to the Educational Enhancement Trust Fund. See "FINANCIAL DATA OF THE DEPARTMENT - Economic Factors and Strategic Plans" for a more detailed description of the variable percentage payout strategy to maximize deposits to the Educational Enhancement Trust Fund.

Based on legislative policy, the Department of Education allocates funds from the Educational Enhancement Trust Fund for various programs for all levels of education within the State's public education system, from kindergarten through the State University System. Funds are distributed to each of the State's school districts, to the community colleges within the Community College System and to the universities within the State University System. There are also additional specific programs funded for public school facility construction and for scholarship programs for postsecondary education. The \$1.37 billion appropriation for Fiscal Year 2011-12 from the Educational Enhancement Trust Fund will be distributed among the programs in the following percentages: 43% to public school systems, 9.5% to the Community College System; 18.5% to the State University System and 29% for scholarship programs for higher education.

Debt Service Reserve Account

There will not be a Debt Service Reserve subaccount funded for the Series 2011A Bonds. However, the Resolution creates the Debt Service Reserve Account within the Sinking Fund, which is to be used for payments of debt service on Bonds when the amounts in the Sinking Fund are insufficient therefor. Pursuant to the Resolution, the Debt Service Reserve Account can be funded with cash or with one or more Reserve Account Credit Facilities. The Resolution authorizes the creation of separate subaccounts within the Debt Service Reserve Account for one or more Series of Bonds. Currently the Debt Service Reserve is funded in amounts sufficient to cover the Maximum Annual Debt Service on the outstanding Series 2002A through Series 2009A Bonds by debt service reserve account surety bonds from Financial Guaranty Insurance Company ("FGIC") in the amount of \$132,419,941.25, from Ambac Assurance Corporation ("Ambac") in the amount of \$62,912,679.25, from MBIA Insurance Corporation ("MBIA") in the amount of \$71,885,911.25, a deposit of bond proceeds from the Series 2008B Bonds in the amount of \$16,066,175, and a deposit of bond proceeds from the Series 2009A Bonds in the amount of \$25,169,417.50. The Series 2010A&B Bonds and Series 2010C Bonds are secured by separate subaccounts funded by the deposit of bond proceeds in the amount of \$14,646,103 and \$26,666,468, respectively. Such subaccounts may also serve as the subaccount for future Additional Bonds. The Series 2010D, 2010E, and 2010F Bonds are not secured by a subaccount in the Debt Service Reserve Account.

The Series 2011A Bonds will not be secured by a subaccount in the Debt Service Reserve Account. The Series 2011A Bonds will have no claim on the existing subaccounts within the Debt Service Reserve Account.

See "MISCELLANEOUS - Bond Ratings" below for a discussion of potential and actual rating agency actions with respect to various insurance companies, including Ambac, MBIA and FGIC, currently providing reserve account surety bonds for various series of Outstanding Bonds.

Outstanding Bonds

The Division of Bond Finance has issued several series of State Board of Education Lottery Revenue Bonds since 1998, which are payable from the Pledged Revenues. The Series 2011A Bonds will be secured by a lien on the Pledged Revenues on a parity with the lien of the Outstanding Bonds. Subsequent to the issuance of the Series 2011A Bonds, the aggregate principal amount of Outstanding Bonds is anticipated to be \$3,129,403,000*, including the principal amount of refunded bonds of \$414,595,000* that either have been or will be economically but not legally defeased. The \$414,595,000* is comprised of the Refunded Bonds in the amount of \$232,345,000*, as well as a portion of the Series 2002A and 2002B Bonds, which were refunded by the Series 2010F Bonds, in the amount of \$182,250,000, all of which have been or will be economically, but not legally, defeased. See "ADDITIONAL BONDS" below.

*Preliminary, subject to change.

Future Bonding

In November 2002, Florida voters approved an amendment to the Florida Constitution which requires the Florida Legislature to provide funding for sufficient classrooms so that by the beginning of the 2010 school year there will be a maximum number of students assigned to each teacher for various grade levels. The Florida Legislature has authorized total funding of approximately \$2.5 billion from various sources including general revenue, Public Education Capital Outlay Bonds and Lottery Revenue Bonds. Additional funding for class size reduction projects was not provided during the 2011 legislative session.

Of the \$2.5 billion authorized funding, \$1.9 billion was assigned to the Class Size Reduction Lottery Revenue Bond Program established by Section 1013.737, Florida Statutes, from three separate appropriations - \$600 million by the 2003 Florida Legislature, \$655 million by the 2006 Legislature, and \$650 million by the 2007 Legislature. The State has issued Lottery Revenue Bonds to fund \$1.9 billion of projects. Additional Lottery Revenue Bonds secured on a parity with the Bonds currently authorized and outstanding may be authorized in the future as a source for funding a portion of the capital expenditures which may be necessary for the class-size reduction or other educational facility programs.

Flow of Funds

Collection of Pledged Revenues - After the issuance of any Bonds pursuant to the Resolution and continuing until such time as no Bonds are Outstanding, all Pledged Revenues in an amount sufficient to make all transfers required under the Resolution, will be transferred by the Department of Education to the Board of Administration for deposit into the Revenue Fund.

Application of Moneys on Deposit in the Revenue Fund - Moneys in the Revenue Fund are applied in the following manner and order of priority:

First, for deposit into the Debt Service Account in the Sinking Fund on the 24th day of each month, an amount sufficient to pay one-sixth of the interest becoming due on the Bonds on the next semiannual Interest Payment Date.

Second, for deposit into the Debt Service Account in the Sinking Fund on the 24th day of each month, in the case of Serial Bonds which mature semiannually, one-sixth of the principal amount of the Serial Bonds which will mature and become due on the next semiannual maturity date and, in the case of Serial Bonds which mature annually, one-twelfth of the principal amount of the Serial Bonds which will mature and become due on the next annual maturity date and, in the case of Term Bonds, an amount sufficient for the payment of the next amortization installments which will become due on the Term Bonds.

Third, for deposit into the subaccounts in the Debt Service Reserve Account in the Sinking Fund on the 24th day of each month, such sums as will be sufficient to maintain an amount equal to the Debt Service Reserve Requirement for the Bonds. In lieu of the required deposits into the subaccounts in the Debt Service Reserve Account or in replacement of any prior deposits into the Debt Service Reserve Account, the Division of Bond Finance may cause at any time to be deposited into the Debt Service Reserve Account one or more Reserve Account Credit Facilities for the benefit of the Registered Owners of the Bonds, in an amount or amounts which, together with sums on deposit, equals the Debt Service Reserve Requirement.

Fourth, for deposit into the Rebate Fund on the 24th day of each month, to the extent that any liability for arbitrage rebate, as determined by the Division of Bond Finance, is not fully funded, an amount necessary to fund such liability.

Fifth, on the 24th day of each month, for the payment of any Administrative Expenses.

Sixth, the balance of any money which was transferred to the Board of Administration and is not needed for the payments required above will be returned to the Lottery Capital Outlay and Debt Service Trust Fund; provided, however, that no such use will be made until all payments required above, including any deficiencies for prior payments, have been made in full to the date of such use.

See “MISCELLANEOUS - Investment of Funds” for policies governing investment of moneys in the various funds.

Covenants with Registered Owners

The following covenants are made in Article V of the Resolution:

(A) So long as any of the Bonds or interest thereon are Outstanding and unpaid, all of the Pledged Revenues shall be and are pledged to the payment of the principal of and interest on the Bonds in the manner provided in the Resolution. The Registered Owners of the Bonds will have a valid and enforceable first lien on the Pledged Revenues until paid out and applied in the manner provided in the Resolution.

(B) The Board of Education will punctually collect, deposit and transfer, or cause to be collected, deposited and transferred, the Pledged Revenues in the manner and at the times provided in the Resolution.

(C) The Board of Education and the Division of Bond Finance covenant with the Registered Owners of the Bonds that they will take no action except as permitted by the Resolution which will materially and adversely affect the rights of such Registered Owners so long as Bonds are Outstanding.

(D) The Division of Bond Finance covenants that new or enhanced lottery games will be operated by the Department of the Lottery and any lottery revenues received by the State therefrom will be deposited into the Educational Enhancement Trust Fund or any successor to such trust fund as required by the Florida Constitution.

The Division of Bond Finance further covenants that any net revenues received by the State from video gaming or other similar activities, regardless of what entity operates these activities, will first be available for payment of debt service on the Bonds or other payments required pursuant to the Resolution prior to use for any other purpose.

The Florida Legislature has confirmed that any future funds generated by the tax on slot machine revenues that are transferred to the Educational Enhancement Trust Fund shall first be available to pay debt service on lottery bonds in the event lottery revenues are insufficient for such purpose or to satisfy debt service reserve requirements for such bonds, subject to annual appropriation by the Legislature (Section 551.106 (2)(c)2, Florida Statutes). See “THE FLORIDA LOTTERY - Competition” below for a discussion of revenues resulting from slot machine operations in Broward and Miami-Dade Counties.

(E) The Division of Bond Finance covenants that the portion of lottery revenues deposited into the Educational Enhancement Trust Fund will not be reduced below 38% of the gross revenue from the sale of lottery tickets and other earned revenue, excluding application processing fees, except upon the written certification of a Lottery Consultant that in its opinion, the amounts deposited into the Educational Enhancement Trust Fund after the reduction would be not less than the amounts projected to be deposited into the Educational Enhancement Trust Fund for each of the next three fiscal years as determined by the Consensus Revenue Estimating Conference’s estimates of deposits to such fund at the 38% rate, prepared in connection with the General Appropriations Act for the session of the Florida Legislature at which such reduction is being considered.

Any subsequent reduction in the contribution rate to the Educational Enhancement Trust Fund will require a similar certification of a Lottery Consultant except that the certification will be with respect to the contribution rate then in effect.

Additionally, no reduction in the contribution rate to the Educational Enhancement Trust Fund will be made unless the Lottery Consultant will certify that the amount deposited annually into the Educational Enhancement Trust Fund after the reduction would be not less than 200% of the Maximum Annual Debt Service on the Bonds. A “Lottery Consultant” is a consultant, or a consulting firm or corporation, retained subject to the approval of the Division of Bond Finance, which is nationally known and recognized as having expertise in the area of state operated lotteries. See “FINANCIAL DATA OF THE DEPARTMENT - Management Discussion and Analysis of Financial History” and “FINANCIAL DATA OF THE DEPARTMENT - Economic Factors and Strategic Plans” for a description of the current status of the contribution of lottery revenues to the Educational Enhancement Trust Fund.

ADDITIONAL BONDS

The Division of Bond Finance has the power to issue Additional Bonds, after the issuance of the Series 2011A Bonds, for the purpose of financing the cost of educational facilities or for the purpose of refunding Outstanding Bonds, but only under the terms, limitations and conditions set forth in the Resolution.

Section 6.01 of the Resolution requires certain conditions to be complied with before such Additional Bonds may be issued. These conditions include, but are not limited to:

(A) The Board of Education must request the issuance of such Additional Bonds.

(B) The Board of Administration must approve the fiscal sufficiency of the Additional Bonds prior to the sale thereof in accordance with Florida law.

(C) The Board of Education must be current in all deposits into the various funds and accounts and all payments theretofore required to have been deposited or made by it under the provisions of the Resolution except payments made pursuant to Section 4.03(6) of the Resolution for other lawful purposes, and the Board of Education must be currently in compliance with the covenants and provisions of the Resolution, or upon the issuance of such Additional Bonds the Board of Education will be current in all such deposits and payments and will be brought into compliance with all such covenants and provisions.

(D) A certificate must be filed with the Board of Administration and the Division of Bond Finance signed by an Authorized Officer of the Board of Education or other appropriate State official setting forth the amount of Pledged Revenues which would have been available to the Board of Education during the immediately preceding fiscal year or any 12 consecutive months selected by the Board of Education out of the 24 months immediately preceding the date of the issuance of such Additional Bonds.

(E) The Division of Bond Finance must determine that the amount of Pledged Revenues available pursuant to the certificate described in subsection (D) exceeds 300% of the aggregate Maximum Annual Debt Service for all Bonds then Outstanding and the Additional Bonds proposed to be issued. In making this determination, the debt service requirement attributable to Bonds to be refunded or defeased from the proceeds of the Additional Bonds proposed to be issued will not be counted in addition to the debt service requirement of the Additional Bonds issued to refund such Bonds.

The Bonds may be refunded in whole or in part as long as the above requirements are complied with, except that refunding Bonds with an Annual Debt Service Requirement in each fiscal year equal to or less than the Bonds they are refunding do not have to comply with the requirements of (C), (D) and (E) above.

(Remainder of page intentionally left blank)

THE FLORIDA LOTTERY

General

The operation of lotteries by the State was authorized by a constitutional amendment approved by Florida voters in November 1986 by a margin of nearly two to one. The Department was established as a state agency in 1987 with the enactment of the Florida Public Education Lottery Act, as amended (the "Act"), the purpose of which is to implement Section 15, Article X of the Florida Constitution. Net proceeds of the lottery games are intended to support improvements in public education and not be used as a substitute for existing resources for public education. The Act provides for the Department to operate as an entrepreneurial business enterprise and to be accountable to the Legislature through a system of audits and reports and through compliance with financial disclosure, open meetings and public records laws.

Since the start-up of the lottery games in 1988 and through March 31, 2011, the Department has developed various categories of scratch-off ticket and on-line lottery games and promotions, which have generated over \$62.9 billion in revenues, including over \$34.3 billion in prizes. Since 1988, the Department has transferred approximately \$22.4 billion to the Educational Enhancement Trust Fund. For Fiscal Year 2010-11, weekly sales of scratch-off tickets averaged approximately \$42.0 million, and weekly sales of on-line tickets averaged approximately \$33.8 million. See "Current Games" below for further descriptions of lottery games.

For Fiscal Year 2009-10, the Florida lottery games ranked third in total sales and thirteenth in per capita sales among the 42 United States lottery jurisdictions.

Administration

General - The Department's headquarters are located in Tallahassee, with nine district offices located throughout the State. Pursuant to the Act, the chief executive officer of the Department is the Secretary, who is appointed by the Governor and subject to confirmation by the Senate. The Secretary is charged with overall management of the Department, with individual functional units responsible to the Secretary for day-to-day operations. Current organizational branches of the Department include: Marketing, Sales, Operations, Business Development, Finance and Budget, Administration and Security.

Key Administrative Personnel

Cynthia F. O'Connell – Ms. O'Connell was appointed Secretary of the Department in February 2011 by Governor Rick Scott. Prior to her appointment, Ms. O'Connell served as a Senior Vice-President/General Manager at Hill & Knowlton, a leading international communications consultancy, where she oversaw communication strategies for major national and Florida accounts. She served as the Information Manager for the Olympic Athletes Villages and SE US manager of the Torch Relay for the 1996 Olympic Games in Atlanta. Ms. O'Connell has previously served as the Division Director of Research and Promotion for the Florida Lottery, where she developed the promotional launch of the Lottery's instant and on-line games. She has experience as a branding, marketing, and communications executive with financial companies and higher-learning institutions. Ms. O'Connell has a long history of public service to Florida, which includes being a Board of Trustee member of the University of Florida and Chairwoman of the Florida House on Capitol Hill in D.C. Ms. O'Connell received her Bachelor of Science degree from Florida State University.

Dennis Harmon - Mr. Harmon was appointed Deputy Secretary in July 2005. In this role, he oversees the Lottery's product development, business development, marketing research programs and manages the contracts with the Department's scratch-off vendors. Prior to this appointment, he served for six years as the Lottery's Director of Research and Policy Analysis. Before joining the Department, he had formed the Governor's Office of Tourism, Trade and Economic Development and served as its first director. Overall, he has 36 years of State government experience in strategic planning, policy analysis, legislative and interagency relations and management of research programs. He holds a Bachelor's degree from Miami University (Ohio) and Master's and Ph.D. degrees from the University of Kentucky.

J. Bruce Hoffmann - Mr. Hoffmann was appointed as Chief of Staff of the Department in April 2011, served in the House of Representatives for four years, representing District 114, and served as General Counsel for both the Department of Revenue and Department of Management Services. In addition, he has over 20 years of private law practice, numerous community involvements and served as President of the General Counsels Association in 2005. He received his Bachelor of Science degree in Advertising and Juris Doctor degree from the University of Florida.

David Bishop – Mr. Bishop was appointed Deputy Secretary for Brand Management in July 2011. In this capacity, he oversees advertising, marketing, communication, and media components for the Florida Lottery. In addition, Mr. Bishop manages the contracts for the Lottery’s two advertising agencies. Prior to joining the Department, he served in various capacities within State government, including the Governor’s Office of Tourism, Trade and Economic Development and the Florida Senate. Mr. Bishop has more than 20 years of experience in communications and marketing. He received a Bachelor’s degree from Florida State University.

Cynthia B. Jackson - Ms. Jackson was appointed Chief Financial Officer of the Department in March 2005. Ms. Jackson’s responsibilities include financial reporting, budget and procurement management, cash, investments and receivables management and prize payments. Prior to joining the Department, she held other management positions in State government, including Internal Audit Manager for the State Board of Administration. Prior to joining State government, she spent 16 years in the private sector in various positions, including Vice President of Finance and Administration for the Florida Medical Association. Ms. Jackson has been a Certified Public Accountant since 1996. She received her Bachelor’s degree in 1984 from Georgia Southern College and her Masters of Accountancy degree in 1996 from the University of North Florida.

Randall O’Bar – Mr. O’Bar was appointed Chief Information Officer in May 2004. Prior to joining the Department, he had worked a total of 26 years in Information Technology, including the most recent 16 years in the lottery industry. He directs various Lottery functions including software, hardware, telecommunications and networking support for the Department. As Chief Information Officer, Mr. O’Bar oversees Software and Data Services, Systems and Operations Services (comprised of Systems, Network and Client Services and Computer System Operations), Software Quality Assurance, Games Administration, and manages the contract for the Department’s on-line gaming vendor, GTECH Corporation.

Andy Mompeller - Mr. Mompeller was appointed Inspector General of the Department in August 2006. He served as District Manager in the Miami District Office for 6 years prior to his appointment as Inspector General. Prior to joining the Department, he owned and operated several businesses including a full-service investigative agency. He is a former Deputy Chief Investigator with the US District Courts and a former Sheriff’s Deputy for Miami-Dade County, Florida. Mr. Mompeller completed the Florida Police Officer Certification at the South Eastern Institute of Criminal Justice.

Glenda Thornton – Ms. Thornton was appointed General Counsel of the Department in April, 2011. Prior to joining the Department, she practiced over 20 years in the private sector at several national law firms representing businesses in complex commercial litigation. Ms. Thornton’s volunteer experiences include serving as Chairman of the following boards: the Greater Tallahassee Chamber of Commerce, United Way of the Big Bend, Leadership Tallahassee, Workforce Plus, and the local division of the American Heart Association. She received her B.S. degree in Accounting from the University of South Alabama in 1986 and Juris Doctor degree from Florida State University College of Law in 1989.

Current Games

Current lottery games include a mix of scratch-off and on-line games. Players can collect non-reportable winnings from any lottery retailer, mid-tier prizes from any lottery district office, and jackpot or deferred payment prizes at the Department’s headquarters in Tallahassee. Winners of prizes to be paid out over a period of ten years or longer have the option, subject to the provisions of each particular game, to choose a lump sum cash payment or annual payments of such prizes.

Scratch-off Games - On January 12, 1988, “Millionaire” became the first lottery game to go on sale. To date, the Lottery has introduced approximately 850 new scratch-off games and continues to market approximately 50 new games each year. The portfolio of products offered at any given time provides a wide range of play styles, game themes, and price points in order to appeal to a wide range of players. Prizes have included free tickets, merchandise, vacations and over \$1 million. Prices of scratch-off game tickets range from \$1 to \$20. All winning scratch-off tickets must be redeemed within 60 days of the official end date of that scratch-off game. The shelf life for most scratch-off games is approximately 52 weeks. Unaudited scratch-off sales for Fiscal Year ending June 30, 2011 were \$2.2 billion, an increase of 7.1% over the previous year, this being the first time since Fiscal Year 2007-08 that the sales trend is showing significant signs of reversing from a state of decline. Scratch-off ticket sales for the Fiscal Year ended June 30, 2010 were approximately \$2.1 billion or 53.3% of combined sales. Scratch-off sales showed a slight increase (0.7%) over the prior year. Fiscal Year 2008-09 was the first year that scratch-off sales experienced a decrease since Fiscal Year 1999-2000, which was attributed to the overall trends seen in the economy. The previous years’ increases can mainly be attributed to the passage of legislation, implemented in September 2002, that enabled the Department to return a variable percentage of scratch-off game revenues as prizes, thus bolstering the Department’s ability to market higher priced games as a way to maximize revenues transferred to the Educational Enhancement Trust Fund (see “FINANCIAL DATA OF THE DEPARTMENT-Management Discussion and Analysis of Financial History”). The Department has also had measurable success strategically launching several “families of games” and has highlighted several key scratch-off games in the total advertising effort.

On-Line Games - The Department currently offers eight on-line games: FLORIDA LOTTO™, FANTASY 5® , PLAY 4™, CASH 3™, MEGA MONEY™, MILLIONAIRE RAFFLE™, LUCKY LINES™ and since January 4, 2009, the Florida Lottery also participates in a multi-state, on-line game, POWERBALL® (see “FINANCIAL DATA OF THE DEPARTMENT - Economic Factors and Strategic Plans”). FLORIDA LOTTO™, FANTASY 5®, MEGA MONEY™, and POWERBALL® are pari-mutuel games in which the actual prize amounts depend on the sales and the number of winners for the draws. Prizes are divided among the winners in each prize category. PLAY 4™, CASH 3™, and MILLIONAIRE RAFFLE™ are set prize payout games. Tickets for most games are \$1. CASH 3™ and PLAY 4™ offer tickets for 50¢ or \$1, depending on the type of play selected; MILLIONAIRE RAFFLE™ ticket prices vary depending on the theme of the raffle. Currently, drawings for POWERBALL®, FLORIDA LOTTO™ and MEGA MONEY™ are held twice each week, and the drawing for FANTASY 5® is held nightly. Beginning May 19, 2008, CASH 3™ and PLAY 4™ drawings are held twice each day at mid-day and evening. MILLIONAIRE RAFFLE™ drawings are held in accordance with administrative rules based on the game’s design. The Department also offers certain add-on features, EZmatch™, Power Play® and XTRA®, in conjunction with certain games to increase a player’s prize amount for additional dollars. The most recent game launched was LUCKY LINES™ in October 2010 which is an instant win game that utilizes a grid playstyle and set prize payouts. Unaudited sales amounts for on-line tickets for the Fiscal Year ended June 30, 2011 remained constant with the prior year at approximately \$1.8 billion. However, this amount only represents 44% of combined sales.

As indicated in the table below, individual games began at various times, with FLORIDA LOTTO™ and CASH 3™ beginning in April 1988. The game designs and prize structures of the games are revised from time to time to maintain interest and boost ticket sales.

The FLORIDA LOTTO™ game is an industry leader and has advertised some of the largest in-state Lotto jackpots in the industry, including \$106.5 million in September 1990, \$104.8 million in December 2002, \$89.7 million in October 1991, \$87.9 million in April 2006, \$87.8 million in September 2002, \$87.6 million in January 2002, \$86 million in March 1993, \$81.6 million in March 2000 and \$81.2 million in December 1999. FLORIDA LOTTO™ advertised jackpots are estimated based on ticket sales, funds from rollovers, if any, and, anticipated interest earnings on investments purchased for a 29-year period. FLORIDA LOTTO™ prize winners of \$1 million or more have the option of choosing to receive the jackpot prize in one lump-sum cash payment or in 30 annual installments. Approximately 91% of winners choose the lump sum cash option. Between the periods of March 2, 2008 and October 14, 2009, the LOTTO PLUS™ add-on feature was added to the traditional FLORIDA LOTTO™ game, which offered a choice of three levels of jackpots. For an extra \$1 or \$2, players could increase the size of their winnings by \$10 million or \$25 million over the advertised base jackpot. The LOTTO PLUS™ feature was replaced with LOTTO XTRA® in October 2009. The XTRA® feature increases the amount of the non-jackpot prizes for an additional \$1.

In January 2009, the Department joined the Multi-State Lottery Association (“MUSL”) and added POWERBALL® to its portfolio of games. POWERBALL® is a combination of a big game jackpot and a cash game offering eight set prize levels from \$3 to \$200,000. POWERBALL® is currently sold in 31 MUSL lottery states, the District of Columbia and the U.S. Virgin Islands. In 2008 there were two nine-figure jackpots: \$180 million in May and \$276 million in March. The record jackpot was \$365 million in February 2006. Other recent record jackpots were \$340 million in October 2005 and \$314 million in August 2007. Players choose five numbers from 1 through 55 and one number from 1 to 42 for the Powerball. Drawings are held on Wednesday and Saturday nights, with prizes awarded for matching three, four or five of the winning numbers plus an increase if the POWERBALL® number is matched, and an optional Power Play® feature, which applies a random number multiplier. The current minimum jackpot is \$20 million. Jackpot winners have the option of choosing to receive the jackpot prize in one discounted lump-sum cash payment or in 30 annual installments. The Department experienced a net gain in its pari-mutuel on-line sales of \$62.3 million resulting in additional Educational Enhancement Trust Fund transfers of \$24.9 million as a result of Florida’s participation in the POWERBALL® games during Fiscal Year 2008-09. After Florida joined, the 32 jurisdictions participating in POWERBALL® had a population of approximately 126 million. MUSL now has 33 member lotteries. On October 7, 2009, MUSL and the Mega Millions Consortium, the other multi-state lottery, reached an agreement to allow each group’s members to begin selling both POWERBALL® and Mega Millions within their own jurisdiction. POWERBALL® can now be purchased in 44 jurisdictions with a combined population of approximately 254 million. The Georgia Lottery began selling POWERBALL® on January 31, 2010 in addition to Mega Millions. The revenue estimates for POWERBALL® with Power Play® are included in the most recent Revenue Estimating Conference report.

The on-line gaming system was updated on January 31, 2005, with the latest technology in terminals and wireless communications pursuant to a contract with the Department’s on-line provider, GTECH® Corporation (see “On-Line Service Provider” below). The new system included an expanded base of 12,000 full service terminals, with the capability of an additional 8,000 terminals.

Historical Revenues by Type of Game - The following schedule shows Florida lottery sales by game:

**Department of the Lottery
Historical Lottery Sales By Game
(In Thousands)**

| Fiscal Year Ended June 30 | FLORIDA | | | | MEGA | MILLIONAIRE | Total On-line | Scratch-off Tickets ⁷ | Combined Sales | |
|---------------------------------|--------------------|------------------------|---------------------|---------------------|--------------------|---------------------|------------------|-------------------------------------|-------------------|------------------------|
| | LOTTO ¹ | FANTASY 5 ² | PLAY 4 ³ | CASH 3 ⁴ | MONEY ⁵ | RAFFLE ⁶ | | | | POWERBALL ⁸ |
| 2000 | \$864,983 | \$216,303 | \$158,620 | \$318,972 | \$121,266 | - | - | \$1,680,144 | \$568,352 | \$2,248,496 |
| 2001 | 845,433 | 191,614 | 163,157 | 326,471 | 108,842 | - | - | 1,635,517 | 639,209 | 2,274,726 |
| 2002 | 806,023 | 262,923 | 170,708 | 329,830 | 98,315 | - | - | 1,667,799 | 662,566 | 2,330,365 |
| 2003 | 925,474 | 259,999 | 182,716 | 330,001 | 95,930 | - | - | 1,794,120 | 1,073,861 | 2,867,981 |
| 2004 | 785,415 | 259,728 | 192,580 | 349,227 | 125,944 | - | - | 1,712,894 | 1,358,068 | 3,070,962 |
| 2005 | 689,820 | 252,467 | 206,982 | 345,598 | 131,248 | - | - | 1,626,115 | 1,844,619 | 3,470,734 |
| 2006 | 835,028 | 306,679 | 215,529 | 343,174 | 128,502 | - | - | 1,828,912 | 2,100,118 | 3,929,030 |
| 2007 | 735,585 | 326,241 | 225,285 | 348,694 | 130,142 | \$72,549 | - | 1,838,496 | 2,283,620 | 4,122,116 |
| 2008 | 778,954 | 309,445 | 227,940 | 336,096 | 122,742 | 30,818 | - | 1,805,995 | 2,368,781 | 4,174,776 |
| 2009 | 650,603 | 287,285 | 238,957 | 320,157 | 102,190 | 41,314 | \$233,396 | 1,873,902 | 2,064,135 | 3,938,037 |
| 2010 | 445,881 | 281,963 | 235,027 | 304,039 | 92,060 | 29,334 | 434,062 | 1,822,366 | 2,078,133 | 3,900,499 |
| 2011 ⁹ | 411,389 | 282,777 | 235,692 | 313,270 | 88,971 | 12,603 | 392,969 | 1,783,040 | 2,225,676 | 4,008,716 |

Source: Department of the Lottery.

¹ Sales of FLORIDA LOTTO™ began April 29, 1988.

² Sales of FANTASY 5® began April 28, 1989.

³ Sales of PLAY 4™ began July 4, 1991.

⁴ Sales of CASH 3™ began April 29, 1988.

⁵ Sales of MEGA MONEY™ began February 19, 1998 and ended June 24, 1998. The game was reintroduced on May 29, 1999.

⁶ Sales of MILLIONAIRE RAFFLE™ began November 20, 2006. The game is only offered periodically.

⁷ Sales of Scratch-off Tickets began January 12, 1988. Implementation of increased scratch-off prize payouts began September 1, 2002.

⁸ Sales of POWERBALL® Tickets began January 4, 2009.

⁹ Unaudited.

Retail Distribution Network

Tickets for scratch-off and on-line games are sold to the public through a distribution network of contracted retailers, who receive a commission of 5% on ticket sales as well as a 1% cashing bonus on the redemption of tickets under \$600. As of June 30, 2011, there were 13,270 full-service retailers. The current contract with the on-line vendor, which became effective January 1, 2005, provided for a base of 12,000 full-service retailer terminals, with the ability to expand to 20,000 terminals (see "On-Line Service Provider" below), but the Department's current appropriation allows for payment of 13,500 terminals. The Lottery would like to increase the number of retailers to 15,000 based on Florida's population.

Retailer applications are subject to various reviews, including financial and criminal background investigations, and require a non-refundable application fee. Retailers who fail to meet financial criteria upon initial application or experience problems with remittance of funds due the Department from the sale of lottery tickets are required to deposit specified types of collateral to secure contract performance.

During the 2009 Legislative Session, the Department was successful in obtaining spending authority to install 1,000 Instant Ticket Vending Machines (ITVM) for use by some of the Department's highest selling scratch-off retailer locations. The ITVM network was completed by the end of October 2009. In Fiscal Year 2010-11, the Department increased its ITVM network with an additional 500 units. These ITVMs allow high-volume retailers to sell tickets to players without having to stand in customer service lines. The ITVMs allow players to choose from 24 bins and are "plan-o-grammed" by the Department to showcase a wide variety of tickets regardless of the chain or location. As required by Section 24.105, Florida Statutes, the machines must be under the supervision and within the direct line of sight of the retailer and be capable of being electronically deactivated by the retailer to prohibit use by underage consumers through the use of a lockout device that maintains the machine's deactivation for a period of no less than 5 minutes. Since installation, ITVMs have sold over \$400 million tickets. The machines are currently averaging \$518 per day per unit. The average weekly sales amount for scratch-off tickets from the ITVMs is \$3,656. The ITVMs are leased from GTECH (as herein defined) on a per unit basis that was presented as an option offered during the procurement process in 2004. These ITVMs do communicate with the on-line gaming system.

Scratch-Off Ticket Service Provider

The Department has rebid the contract for scratch-off games services on three occasions, and the most recent contract was awarded to Scientific Games International, Inc. ("Scientific Games") effective October 1, 2008. In addition, the Department also awarded secondary scratch-off ticket printing contracts to GTECH® Printing Corporation and Pollard Banknote. The contracts are for a period of six years through September 20, 2014, with two renewal options for a period of two years each.

Effective October 1, 2008, based on the competitive procurement, Scientific Games and the Department entered into a shared-risk agreement. The basic elements of the agreement are: retailers purchase books of tickets from the Department, which procures them from Scientific Games. However, Scientific Games is not paid for the tickets until the book is systematically identified as being sold. Scientific Games is responsible for marketing support, research, telemarketing, printing, warehousing, and delivery of the tickets to the retailers. Scientific Games is compensated using varying rates that correspond to the net scratch-off ticket sales at each price point. The agreement provides for liquidated damages, a performance bond, and other liability coverage to protect the Department's interests. The Department estimates that this agreement will save the State of Florida more than \$154 million over its six-year term when compared to the previous contract.

On-Line Service Provider

Following a competitive procurement process in 2003, the Department entered into a contract that became effective January 31, 2005 with GTECH Corporation ("GTECH") for services necessary to support the on-line games. In August 2006 GTECH merged with Lottomatica, S.p.A., to form a new entity known as Lottomatica/GTECH. Lottomatica, S.p.A. is the sole operator of the Italian Lottery. The initial term of the agreement was for six years (through March 27, 2011) and had two two-year renewal terms, available at the sole option of the Department. The Department has exercised its renewal option for the two periods. As a result of the renewal negotiations, the

Department calculates it has obtained an additional \$21 million in value for the State of Florida. GTECH has extensive experience in the operation of gaming systems, and is the vendor for 24 U.S. lotteries including New York, California, Massachusetts, Georgia, and Texas. The GTECH agreement includes the installation, operation and maintenance of new on-line game hardware, software, retailer terminals, telecommunications network and related services.

The system initially included 12,000 full-service retailer terminals, with the ability to expand to 20,000 terminals. The Department's current appropriation allows for the payment of 13,500 terminals. Based on performance data of the top U.S. lotteries, the Department believes that given Florida's population the optimal distribution network would consist of 15,000 retailers. The base compensation rate during the initial six-year term was 1.1499% of net sales of on-line tickets. This rate changed as of March 27, 2011 to 1.0699% of net sales of on-line tickets for the remainder of the term. The new gaming system offers improvements in operating efficiency and features, compared with the previous system.

Marketing

Advertising and Promotions - The Legislature appropriates the Department's annual advertising and promotions budget, which is approximately \$33.7 million for Fiscal Year 2011-12. The purpose of lottery advertising is to maximize awareness, build player loyalty, communicate with players and maintain market share in the gaming, entertainment and impulse consumer product industries.

The advertising program uses numerous media vehicles including outdoor, television, radio, internet and print to support various branding, promotional and product campaigns in ten Florida media markets. Advertising agencies for the Department have been selected by a formal bidding process by which vendors are requested to submit formal responses to and in accordance with a Request for Proposal or an Invitation to Negotiate. There are currently separate contracts for general market advertising and Hispanic market advertising. The Department currently contracts with St. John and Partners of Jacksonville (general market advertising) and Machado, Garcia-Serra, LLC ("MGS") (Hispanic market advertising). The contract with St. John & Partners went into effect on August 26, 2009, and has an initial term of three years and may be renewed for three additional one-year periods. The contract with MGS went into effect on November 6, 2007 and has an initial period of three years, with the option of three one-year renewals. The Department has exercised the first renewal option for the MGS contract. During the renewal negotiations, the agency negotiated a 3% reduction in the fees paid for services. At this time, the Department is in the evaluation stages of an Invitation to Negotiate for public relations services. The Department anticipates having a new contract established before the end of the first quarter of 2012. The previous contract for public relations services with MRD Consulting Inc. of Miami expired on December 31, 2010. Funds for these services are not paid from the advertising appropriation.

Business Development

Research - Research for the Department is coordinated by the Deputy Secretary and is intended to provide timely data and analysis useful in Department planning, decision-making and communication. Both quantitative and qualitative types of market research are also performed by the Department's contracted service providers for scratch-off games, on-line games, market research and advertising.

New Product Development - Developing successful new products and strategies helps increase sales and profits for all lotteries. The product development process for scratch-off and on-line games is (1) market research; (2) concept development and consumer testing; (3) business analysis; and (4) commercialization. All consumer products have distinct life cycles that include the stages of introduction, growth, maturity, and decline. The life of a scratch-off ticket game is approximately 52 weeks, which means the new product development process is extensive and fast-paced. The scratch-off ticket multiple game strategy involves the precise timing of approximately 50 new game introductions each year in a variety of play styles, themes, colors, prices, top prizes, and odds to appeal to a broad base of players. The new product development process for on-line games tends to be less rapidly paced and more involved than the scratch-off game process because the on-line game life cycles extend for years. Successful new on-line games must be structured to limit the cannibalization of other on-line games and typically include technology solutions. In addition, strategies are developed to extend the life cycles of mature on-line games, depending on current market conditions and sales trends.

Recruitment of Retailers - The Department is continuously trying to increase market penetration by increasing the number of terminals pursuant to the new on-line games contract, expanding the Lottery's potential retailer base to 13,500 full-service retailers (see "THE FLORIDA LOTTERY - Retail Distribution Network"). The last recent increase in spending authority for terminals was approved in September 2007, when budgetary authority was obtained to allow the retailer network to lease an additional 500 terminals. Recruitment of new full service retailers and the expansion of the Lottery network continue. Independent and corporate chain prospects are being identified, engaged and recruited for the purpose of optimizing the retailer-to-population ratio, boosting total sales and increasing transfers to the Educational Enhancement Trust Fund. The Department is also investigating contracting with different types of businesses that have expressed interest in being a lottery retailer.

See "FINANCIAL DATA OF THE DEPARTMENT - Economic Factors and Strategic Plans" for a further discussion of the Department's current strategies for business development.

Information Systems

The Department's Operations area manages the computer and communication systems and includes Software and Data Services, Systems and Operations Services (comprised of Systems, Networks, Client Services, and Computer Systems Operations), Software Quality Assurance, and Games Administration. The staff in Operations performs the analysis, design, programming, testing, coordination, and implementation for the administrative systems and gaming related systems for the Department (with the exception of the on-line gaming system provided by the contracted on-line service provider). Each of the systems implemented by Operations is developed in cooperation with the Information Security Management unit and in conjunction with the end-user to ensure that proper data and user authentication security is built into each new business application to preserve the integrity of the Department's information resources. Additionally, the data within each business application system is protected through controlled access authorization and logical file protection mechanisms to ensure accurate storing, processing, and reporting of information. A multitude of gaming support and administrative applications are designed and supported by Operations, ranging from payment of winning tickets, sales reporting, accounts receivable, and office automation.

The Department's headquarters data center operates on a 24-hour-a-day, 7-day-a-week schedule, holidays included. The Department has an emergency backup data center in Orlando, Florida, which is intended for business continuation in the event that the headquarters data center is incapacitated. The major revenue-producing functions and production jobs can be successfully run at the backup data center if and when this becomes necessary. Operations is responsible for maintaining and coordinating the Department's Information Technology Disaster Recovery Plan.

Lottery Security

The Act requires that the Department have a Division of Security to promote and protect the integrity of, and public confidence in, the Department and the lottery games. This division is responsible for maintaining the security of the facilities, data, the drawings, and the integrity of employees, retailers and major service providers. Background investigations are conducted on all employees of the Department, retailers, and service providers for major procurements. Pursuant to Section 24.108, Florida Statutes, the Florida Lottery must, at least once every two years, engage an independent firm experienced in security procedures to conduct a comprehensive study and evaluation of all aspects of security in the operation of the Lottery. The Department recently completed the evaluation process, and the report has been presented to management and required members of the legislature. The 2010 evaluation states: "The overall security of the Florida Lottery is very good. The results of our organizational scan indicate a very strong security culture within the organization."

Scratch-off ticket security is ensured by a high level of security at the printer location during packing and during delivery of the tickets, and by evaluation of the ticket quality and security criteria by the Division of Security. The Department employs an extensive system of internal controls and procedures to ensure the integrity of lottery drawings for on-line games, including secure storage of draw machines and ball sets, monitored storage vault with strict access procedures, and drawings recorded by broadcast facility staff and departmental video. An independent verification of the results of each drawing is completed by an employee of the Division of Security and an accountant from an independent certified public accounting firm. A number of additional on-line ticket security requirements were implemented in January 2009 to accommodate the sale of POWERBALL® tickets.

The Division of Security is responsible for maintaining and coordinating the Department's Continuity of Operations Plan, in close coordination with the Florida Division of Emergency Management.

Competition

In General - Competition for gaming dollars exists in Florida, as it does in many states. Various forms of competition existed prior to or have come into existence since the initial authorization for the Department to operate lottery games.

Federal law generally allows states to either permit or prohibit gambling within their borders. Gambling is generally illegal in the State of Florida. There are exceptions for pari-mutuel wagering, certain bingo and other penny-ante games, poker at pari-mutuel facilities, slot machines at a limited number of pari-mutuel facilities in Broward and Miami-Dade counties (see "*Broward and Miami-Dade County Slot Machines*" below), drawings by chance conducted by nonprofit organizations, the Florida lottery games and the Indian tribal gaming (see "*Indian Gaming*" below). Currently, the lottery operated by the State of Georgia offers the only border state lottery. Other out-of-state venues, which vie for players from the Florida market, include pari-mutuel gaming, cruise ship gaming, Indian tribal gaming and casino gaming. Internet gaming is another recent competitive factor and is the subject of court cases examining the legalities of the use of the internet to provide gaming opportunities. Similarly, there has been a recent emergence of Internet Cafés throughout the State, which use electronic game promotions to provide patrons with entries into a random drawing when they purchase internet access or telephone cards. Currently, Internet Cafés are not actively regulated or overseen by a state agency or taxed; however, the legality and regulation of the cafés is being evaluated at both the State and local levels. Although the Department does not currently consider any of these other gaming opportunities to be a serious competitive threat, and has successfully competed with those currently in effect, it can give no assurance that future competition will not adversely affect lottery sales and financial performances.

Additionally, bills were filed in previous sessions of the Florida Legislature which would have permitted the operation of video lottery terminals (VLT's) at qualifying pari-mutuel locations throughout the State. None of these bills were approved. Should such a bill ever be adopted, the Resolution provides that any net revenues received by the State from such activity are required to first be available for payment of debt service on the Bonds (see "SECURITY FOR THE SERIES 2011A BONDS - Covenants with Registered Owners").

Broward and Miami-Dade County Slot Machines - In 2004, Florida's voters approved a constitutional amendment that permitted referenda in Miami-Dade and Broward counties to decide whether to authorize "traditional" slot machines at pari-mutuel establishments. The voters in Broward County approved the measure in March 2005; the voters in Miami-Dade County approved it in January 2008. In 2005, the Florida Legislature adopted legislation implementing the constitutional initiative. Three facilities in Broward County have been licensed and are operating. Two slot facilities are operating in Miami-Dade County, with one additional facility (Miami Jai Alai) slated to open in January 2012 and another (Hialeah) slated to open in January 2013. The statutory tax on slot machine operations is 35% of revenues, after deducting the value of prizes paid to winners. Such tax revenues must be deposited into the Educational Enhancement Trust Fund and would be available to pay debt service on lottery bonds should lottery revenues be insufficient. These facilities generated \$136.5 million and \$127.7 million in tax revenues in Fiscal Years 2009-10 and 2010-11, respectively. The Consensus Estimating Conference on Slot Machines was held in July 2011 and adjusted post-legislative session adopted estimates for such tax revenues of \$139.3 million, \$149.4 million, \$174.2 million, and \$178.7 million, for Fiscal Years 2011-12, 2012-13, 2013-14, and 2014-15, respectively. The slot machines are not expected to have a material adverse effect on lottery revenues deposited to the Educational Enhancement Trust Fund.

Indian Gaming - The federal Indian Gaming Regulatory Act ("IGRA") permits Indian tribes to conduct bingo and related games regardless of state laws. Certain other card games are permitted on tribal lands if they are legal in the state. The operation by Indian tribes of any Class III Gaming Devices, including slot machines, lotteries, roulette, craps, keno, video lottery terminals ("VLT's"), and banked card games such as blackjack, baccarat and chemin de fer, requires any other entity in the state to have already been permitted by the state to conduct such activity, and also requires a formal agreement between a tribe and the state (a "compact").

Tribes in Florida have operated gambling casinos for several years. There are currently eight casinos in the State, located in Broward (3), Collier (1), Okeechobee (1), Hillsborough (1), Miami-Dade (1) and Hendry (1) Counties. In addition to poker, bingo and electronic bingo, some casinos offer a technologically-assisted bingo game which looks and sounds like a typical Las Vegas-style slot machine. A compact with the Seminole Tribe in April 2010 has now

expanded the casino games to slot machines and banked card games. Previously, Florida law provided that if a compact was reached with the Seminole Tribe, revenues paid to the State would be deposited into the Educational Enhancement Trust Fund to be first available to pay debt service on lottery bonds in the event lottery revenues were insufficient. The successful negotiation and approval of a compact resulted in an amendment to the statute, which now places all revenues paid to the State from the compact into the General Revenue Fund, and such revenues are no longer available to pay debt service in the event of a shortfall in lottery revenues. Given the length of time Indian gaming has been operating in Florida, the Department does not anticipate any material adverse impacts on Lottery revenues.

Business Risks

Lottery revenues are affected by and are subject to conditions which may change in the future to an extent and with effects that cannot be determined at this time. Competitive pressures or other factors could lead to an increase in awards from other types of gaming which could result in lower sales by the Department. In addition, unanticipated changes in consumer preferences and buying habits could also result in lower sales. This discussion of business risk factors is not intended to be exhaustive, but should be considered in evaluating the Series 2011A Bonds.

FINANCIAL DATA OF THE DEPARTMENT

Financial operations of the Department are coordinated by the Lottery’s Chief Financial Officer. The Act requires a variety of financial audits and controls. The Department, unlike any other state agency, must submit detailed monthly and annual financial reports to the Governor, the Chief Financial Officer of Florida, the President of the State Senate and the Speaker of the State House of Representatives, disclosing lottery revenues, prize disbursements and all other expenses. Furthermore, by statute, the Joint Legislative Auditing Committee contracts with an independent Certified Public Accountant for an annual financial audit of the Department. The Certified Public Accountant also performs a study and evaluation of internal accounting controls in effect during the audit period. The State’s Auditor General may also, at any time, conduct an audit of any phase of the Department’s operations. Additionally, the statute requires that at least once every two years, an independent firm experienced in security procedures conduct a comprehensive study and evaluation of all aspects of security in the operation of the Department.

Budgetary Process

Florida law requires all moneys received by the Department which remain after payment of prizes and initial compensation paid to retailers to be deposited into the Operating Trust Fund, and further specifies all funds remaining in the Operating Trust Fund after transfers to the Educational Enhancement Trust Fund to be used for the payment of administrative expenses of the Department. These expenses include all costs incurred in the operation and administration of the Lottery and all costs resulting from any contracts entered into for the purchase or lease of goods or services required by the Lottery.

The Department’s proposed budget is reviewed and approved by Executive Management and is then submitted to the Executive Office of the Governor and the Legislature. Analyses are done periodically to estimate and annualize expenditures for each category. If adjustments to the appropriation are necessary during the fiscal year, budget amendments are requested through the Executive Office of the Governor and must be consistent with legislative policy and intent.

The following table reflects the Department’s budgets as appropriated for the respective fiscal year.

**Department of the Lottery
Summary of Operating and Administrative Budgets
(In Thousands)**

| | <u>2007-08</u> | <u>2008-09</u> | <u>2009-10</u> | <u>2010-11</u> | <u>2011-12</u> |
|---|------------------|------------------|------------------|------------------|------------------|
| Operating/Administrative Expenses | \$39,750 | \$40,021 | \$40,255 | \$40,243 | \$38,896 |
| Scratch-off and On-line Service Providers | 83,308 | 86,340 | 65,140 | 63,527 | 64,319 |
| Advertising and Promotions | <u>34,869</u> | <u>34,869</u> | <u>33,750</u> | <u>33,750</u> | <u>33,750</u> |
| Total Operating Budget ¹ | <u>\$157,927</u> | <u>\$161,230</u> | <u>\$139,145</u> | <u>\$137,521</u> | <u>\$136,966</u> |

Source: Department of the Lottery.

¹ Total Operating Budget does not include a supplemental transfer to the Educational Enhancement Trust Fund, which only represents a small portion of the total transfer. See "FINANCIAL DATA OF THE DEPARTMENT - Transfers to the Educational Enhancement Trust Fund".

Transfers to the Educational Enhancement Trust Fund

The Act requires certain deposits of lottery revenues be made to the Educational Enhancement Trust Fund in each fiscal year. See “SECURITY FOR THE SERIES 2011A BONDS - Statutorily Required Distributions of Lottery Revenues” above. In addition to the statutorily required deposits, since Fiscal Year 1990-91, the Legislature has estimated how much would remain in the Operating Trust Fund at the end of each fiscal year and, based on that estimate, included a supplemental transfer to the Educational Enhancement Trust Fund as a line item appropriation in the Department’s annual budget. Beginning in Fiscal Year 2006-07, the Department changed the calculation method used for monthly transfers. This change resulted in significantly smaller year end supplemental transfers. Given this fact, the annual appropriation no longer includes the year end supplemental transfer, although the transfer will continue to be made upon completion of the annual audit.

Cash transfers are made from the retailers to the Department on a weekly basis. Transfers from the Department to the Educational Enhancement Trust Fund of these funds, net of prizes, commissions and appropriated administrative expenses, are made monthly and are based upon the required statutory distribution to such fund. The Department distributes any unspent appropriation on the date specified in the General Appropriations Act, if any, or as soon as possible following the presentment of audited financial statements after the close of the fiscal year.

(Remainder of page intentionally left blank)

Historical Summary of Revenues, Expenses and Transfers to the Educational Enhancement Trust Fund

The following schedule shows the revenues, expenses and transfers to the Educational Enhancement Trust Fund for the Department for Fiscal Years 2005-06 through 2009-10, derived from the audited financial statements of the Department. The audited financial statements for the Department for Fiscal Year 2009-10 are included in their entirety as Appendix E.

Department of the Lottery Statement of Revenues, Expenses, and Transfers to the Educational Enhancement Trust Fund (EETF)¹ (In Thousands)

| | Fiscal Years Ended June 30 | | | | |
|---|----------------------------|--------------------|--------------------|--------------------|--------------------|
| | 2006 | 2007 | 2008 | 2009 | 2010 |
| OPERATING REVENUES: | | | | | |
| Ticket sales | \$3,929,030 | \$4,122,116 | \$4,174,776 | \$3,938,037 | \$3,900,499 |
| Bad debt expense ² | - | - | (674) | (1,256) | (1,075) |
| On-line fees and miscellaneous | 7,047 | 7,196 | 7,482 | 7,198 | 7,373 |
| Retailer fees | <u>244</u> | <u>242</u> | <u>242</u> | <u>210</u> | <u>226</u> |
| Total Operating Revenues | 3,936,321 | 4,129,554 | 4,182,500 | 3,944,189 | 3,907,023 |
| OPERATING EXPENSES: | | | | | |
| Prizes | 2,340,859 | 2,484,519 | 2,476,032 | 2,340,372 | 2,346,162 |
| Retailer commissions | 224,570 | 234,291 | 235,651 | 220,548 | 216,207 |
| Scratch-off tickets | 48,792 | 53,298 | 55,135 | 31,893 | 30,896 |
| On-line games | 26,255 | 24,792 | 26,165 | 27,982 | 27,390 |
| Advertising | 34,194 | 34,575 | 34,706 | 34,353 | 34,197 |
| Personal services | 25,207 | 26,147 | 27,240 | 26,680 | 27,045 |
| Other contractual services | 8,360 | 7,615 | 8,546 | 7,259 | 7,474 |
| Materials and supplies | 3,409 | 3,071 | 1,400 | 2,247 | 2,309 |
| Bad debts | 219 | 1,085 | - | - | - |
| Depreciation | <u>605</u> | <u>726</u> | <u>695</u> | <u>684</u> | <u>494</u> |
| Total Operating Expenses | 2,712,470 | 2,870,119 | 2,866,244 | 2,692,018 | 2,692,174 |
| INCOME FROM OPERATIONS | 1,223,851 | 1,259,435 | 1,316,256 | 1,252,171 | 1,214,849 |
| NONOPERATING REVENUES (EXPENSES) | | | | | |
| Interest | 6,898 | 10,138 | 13,465 | 7,133 | 6,057 |
| Securities lending income | 68,122 | 74,549 | 53,189 | 18,183 | (2,909) |
| Securities lending fees | (64,335) | (71,374) | (44,888) | (8,980) | (1,520) |
| Investment management fees | (88) | (297) | (290) | (327) | (364) |
| Net appreciation in fair market value of investments ³ | (17,545) | 71,930 | 89,149 | 46,832 | 90,875 |
| Property disposition (loss) | (23) | (97) | (51) | (31) | (4) |
| Amortization of grand prizes payable | <u>(98,030)</u> | <u>(87,951)</u> | <u>(76,383)</u> | <u>(64,757)</u> | <u>(54,079)</u> |
| Total Nonoperating Revenues (Expenses), Net | <u>(105,001)</u> | <u>(3,102)</u> | <u>34,191</u> | <u>(1,947)</u> | <u>43,874</u> |
| INCOME BEFORE OPERATING TRANSFERS | <u>\$1,118,850</u> | <u>\$1,256,333</u> | <u>\$1,350,447</u> | <u>\$1,250,224</u> | <u>\$1,258,723</u> |
| TRANSFERS TO EETF | | | | | |
| Transfers from revenue | \$1,182,763 | \$1,224,524 | \$1,216,839 | \$1,241,015 | \$1,203,024 |
| Transfers from unclaimed prizes | <u>41,888</u> | <u>38,748</u> | <u>66,575</u> | <u>46,840</u> | <u>43,770</u> |
| TOTAL TRANSFERS TO EETF | <u>\$1,224,651</u> | <u>\$1,263,272</u> | <u>\$1,283,414</u> | <u>\$1,287,855</u> | <u>\$1,246,794</u> |

¹ Source: Department of the Lottery, Audited Financial Statements for Fiscal Years 2005-06 through 2009-10.

² Bad debt expense, as required by GASB, was reclassified from an operating expense to a reduction in gross revenue.

³ Net appreciation in fair market value of investments results from implementing GASB Statement 31 to reflect fair market value of investments and represents all changes in fair value that occurred during the year. The investments are being held for lottery prize winners. Pursuant to the Department's investment policy, such investments are held until maturity and used to pay the amounts due to lottery winners. Accordingly, any change in fair interest value is never realized. However, since the investments are restricted for grand prize winners only, these revenues are not available for transfers to the Educational Enhancement Trust Fund.

Historical Summary of Statement of Net Assets Information

The following schedule shows statement of net asset information for the Department for Fiscal Years 2005-06 through 2009-10, derived from the audited financial statements of the Department. The audited financial statements for the Department for Fiscal Year 2009-10 are included in their entirety as Appendix E.

Department of the Lottery Historical Summary of Statement of Net Assets Information (In Thousands)

| ASSETS | As of June 30 | | | | |
|---|--------------------|--------------------|--------------------|--------------------|--------------------|
| | 2006 ¹ | 2007 ¹ | 2008 ¹ | 2009 ¹ | 2010 ¹ |
| CURRENT ASSETS: | | | | | |
| Cash and cash equivalents | \$146,578 | \$183,031 | \$143,031 | \$126,062 | \$156,313 |
| Interest receivable | 2,800 | 1,312 | 728 | 549 | 468 |
| Accounts receivable, net | 24,650 | 34,700 | 40,072 | 43,185 | 16,473 |
| Inventories | 1,437 | 967 | 844 | 843 | 1,021 |
| Prepaid expenses | - | - | 27 | 27 | 46 |
| Security deposits | 2,552 | 3,098 | 3,525 | 2,729 | 2,444 |
| Total Current Assets | 178,017 | 223,108 | 188,200 | 173,395 | 176,765 |
| RESTRICTED ASSETS: | | | | | |
| Cash and cash equivalents | 11,187 | 18,429 | 74,348 | 50,590 | 99,419 |
| Deposit with MUSL | - | - | - | 3,073 | 9,336 |
| Securities lending income receivable | 1,856 | 3,343 | 2,338 | 631 | 292 |
| Pending investment receivable | - | - | - | - | 2,816 |
| Investments, security lending collateral | 1,428,248 | 1,244,246 | 1,068,317 | 842,681 | 749,137 |
| Investments, grand prize | 1,438,466 | 1,287,954 | 1,161,202 | 1,029,759 | 884,058 |
| Total Restricted Assets | 2,879,757 | 2,553,972 | 2,306,205 | 1,926,734 | 1,745,058 |
| CAPITAL ASSETS, NET | 1,244 | 1,908 | 1,279 | 1,235 | 1,421 |
| TOTAL ASSETS | <u>\$3,059,018</u> | <u>\$2,778,988</u> | <u>\$2,495,684</u> | <u>\$2,101,364</u> | <u>\$1,923,244</u> |
| LIABILITIES | | | | | |
| CURRENT LIABILITIES: | | | | | |
| Accounts payable and accrued liabilities | \$10,690 | \$11,868 | \$11,792 | \$8,407 | \$13,686 |
| Prizes payable | 67,903 | 85,576 | 58,478 | 77,745 | 94,809 |
| Due to Educational Enhancement Trust Fund | 93,923 | 117,433 | 112,879 | 83,765 | 59,308 |
| Deposits payable | 2,552 | 3,098 | 3,525 | 2,736 | 2,450 |
| Compensated absences payable | 887 | 867 | 852 | 889 | 873 |
| Total Current Liabilities | 175,955 | 218,842 | 187,526 | 173,542 | 171,126 |
| CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS | | | | | |
| Securities lending fees payable | 1,528 | 2,994 | 2,005 | 749 | 143 |
| Pending purchases payable | 1,181 | - | 1,022 | - | - |
| Obligations under securities lending | 1,425,162 | 1,247,931 | 1,095,328 | 887,749 | 845,692 |
| Grand prizes payable | 237,259 | 237,329 | 212,299 | 194,955 | 172,589 |
| Total Current Liabilities Payable from Restricted Assets | 1,665,130 | 1,488,254 | 1,310,654 | 1,083,453 | 1,018,424 |
| NONCURRENT LIABILITIES: | | | | | |
| Grand prizes payable | 1,115,234 | 976,090 | 834,545 | 718,790 | 595,792 |
| Compensated absences payable | 2,983 | 3,025 | 2,897 | 2,942 | 2,804 |
| Post employment healthcare benefits payable | - | - | 252 | 458 | 990 |
| Total Noncurrent Liabilities | 1,118,217 | 979,115 | 837,694 | 722,190 | 599,586 |
| TOTAL LIABILITIES | 2,959,302 | 2,686,211 | 2,335,874 | 1,979,185 | 1,789,136 |
| NET ASSETS | | | | | |
| Net investment in capital assets | \$1,244 | \$1,908 | \$1,279 | \$1,235 | \$1,421 |
| Restricted net assets for Lotto Plus | - | - | 44,662 | 32,661 | - |
| Restricted net assets for undistributed appreciation on restricted investments ² | 88,462 | 72,440 | 85,206 | 67,281 | 109,494 |
| Restricted net assets for future prizes or special prize promotions ³ | 10,010 | 18,429 | 28,663 | 17,929 | 13,857 |
| Restricted net assets for MUSL | - | - | - | 3,073 | 9,336 |
| Total Net Assets | 99,716 | 92,777 | 159,810 | 122,179 | 134,108 |
| TOTAL LIABILITIES AND NET ASSETS | <u>\$3,059,018</u> | <u>\$2,778,988</u> | <u>\$2,495,684</u> | <u>\$2,101,364</u> | <u>\$1,923,244</u> |

¹ Source: Department of the Lottery, Audited Financial Statements for Fiscal Years 2005-06 through 2009-10.

² Restricted net assets for undistributed appreciation on restricted investments results from implementing GASB Statement 31 to reflect fair market value of investments and represents the unrealized appreciation on such investments. However, since the investments are restricted for grand prize winners only, the balance is not available for transfer to the Educational Enhancement Trust Fund.

³ Restricted Net Assets for future prizes or Special prize promotions includes funds restricted by rule for the settlement of claims for the Lotto Plus add-on jackpots. As this feature is not pari-mutuel, funds must be restricted to ensure adequate coverage of potential liability.

Summary of Operating Revenues and Expenses and Transfers to Educational Enhancement Trust Fund for the Nine Months Ended March 31, 2011

The summary of operating revenues and expenses for the nine-months ended March 31, 2011 compared to the nine-months ended March 31, 2010 has been prepared internally by the Department and is unaudited. In the opinion of management, the unaudited interim financial data includes all known adjustments, consisting of normal recurring adjustments necessary for a fair statement. Results of operations for the nine-month periods are not necessarily indicative of the results to be expected for the full year.

Department of the Lottery
Statement of Revenues, Expenses, and Transfers to the Educational Enhancement Trust Fund (EETF)¹
For the Nine Months Ended March 31, 2011 and March 31, 2010 (In Thousands)
UNAUDITED

| | <u>March 31, 2011</u> | <u>March 31, 2010</u> |
|--|-----------------------|-----------------------|
| OPERATING REVENUES | | |
| Ticket sales | \$2,955,849,296 | \$2,886,621,458 |
| On-line fees and miscellaneous | 5,271,747 | 5,396,433 |
| Retailer fees | 149,713 | 155,180 |
| Bad Debt | <u>(799,821)</u> | <u>(791,983)</u> |
| Total Operating Revenues | \$2,960,470,935 | \$2,891,381,088 |
| OPERATING EXPENSES | | |
| Prizes | \$1,826,255,331 | \$1,734,443,504 |
| Retailer commissions | 163,458,823 | 158,769,957 |
| Retailer incentives | 1,326,491 | 813,271 |
| Scratch-off tickets | 26,458,559 | 22,809,357 |
| On-line games | 21,086,888 | 20,294,889 |
| Advertising | 26,152,090 | 25,312,840 |
| Personal services | 20,009,601 | 19,906,692 |
| Other contractual services | 6,580,626 | 5,811,364 |
| Materials and supplies | 1,119,236 | 1,492,982 |
| Depreciation | <u>238,177</u> | <u>401,014</u> |
| Total Operating Expenses | \$2,092,685,821 | \$1,990,055,868 |
| INCOME FROM OPERATIONS | \$867,785,114 | \$901,325,220 |
| NONOPERATING REVENUES (EXPENSES) | | |
| Interest | \$3,524,618 | \$4,637,024 |
| Securities lending income | 2,434,976 | (3,252,616) |
| Securities lending fees | (1,486,284) | (1,273,135) |
| Investment management fees | (170,857) | (218,669) |
| Rebates from secondary lending fees | 46,383 | - |
| Property disposition loss | <u>(15,188)</u> | <u>(3,793)</u> |
| Total | <u>\$4,333,648</u> | <u>(\$111,190)</u> |
| Net appreciation/(depreciation) in fair value of investments | 6,063,835 | 56,318,278 |
| Amortization of grand prizes payable | <u>(34,536,836)</u> | <u>(41,517,088)</u> |
| Unrealized Appreciation/(Depreciation) on Investments | <u>(28,473,001)</u> | <u>14,801,190</u> |
| Total Nonoperating Income (Expenses), Net | <u>(\$24,139,353)</u> | <u>\$14,690,000</u> |
| INCOME BEFORE OPERATING TRANSFERS | 843,645,761 | 916,015,220 |
| TRANSFERS TO EETF | <u>(867,709,517)</u> | <u>(895,076,421)</u> |
| CHANGE IN NET ASSETS | <u>(24,063,757)</u> | <u>20,938,800</u> |
| NET ASSETS, END OF YEAR | <u>134,108,224</u> | <u>122,191,375</u> |
| NET ASSETS, END OF YEAR | <u>\$110,044,468</u> | <u>\$143,130,175</u> |

¹ Source: Department of the Lottery.

Statement of Net Assets for the Nine Months Ended March 31, 2011

The Statement of Net Assets for the nine-months ended March 31, 2011 compared to the nine-months ended March 31, 2010 has been prepared internally by the Department and is unaudited. In the opinion of management, the unaudited interim financial data includes all known adjustments, consisting of normal recurring adjustments necessary for a fair statement. Results of operations for the nine-month periods are not necessarily indicative of the results to be expected for the full year.

Department of the Lottery Statement of Net Assets for the Nine Months Ended March 31, 2011 and March 31, 2010¹ (In Thousands) UNAUDITED

| | <u>March 31, 2011</u> | <u>March 31, 2010</u> |
|---|-------------------------------|-------------------------------|
| ASSETS | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | \$183,405,385 | \$208,934,686 |
| Interest receivable | 366,699 | 504,229 |
| Accounts receivable, net | 23,325,062 | 17,782,525 |
| Inventories | 1,021,013 | 843,358 |
| Prepaid Warranties | 46,022 | 26,604 |
| Securities deposits | <u>2,558,683</u> | <u>2,503,254</u> |
| Total current assets | <u>\$210,722,865</u> | <u>\$230,594,655</u> |
| RESTRICTED ASSETS: | | |
| Cash and cash equivalents | \$73,972,498 | \$53,024,817 |
| Deposits with MUSL | 14,012,888 | 3,073,441 |
| Securities lending income receivable | 472,374 | 61,813 |
| Investments, grand prize | 770,843,205 | 898,612,597 |
| Investments, security lending collateral | <u>674,758,706</u> | <u>821,183,526</u> |
| Total restricted assets | 1,534,059,671 | 1,775,956,193 |
| CAPITAL ASSETS, NET | <u>1,174,725</u> | <u>830,361</u> |
| TOTAL ASSETS | <u><u>\$1,745,957,261</u></u> | <u><u>\$2,007,381,209</u></u> |
| LIABILITIES | | |
| CURRENT LIABILITIES: | | |
| Accounts payable and accrued liabilities | \$9,341,388 | \$12,588,369 |
| Prizes payable | 81,496,308 | 85,331,114 |
| Due to Educational Enhancement Trust Fund | 112,709,517 | 125,585,099 |
| Deposits payable | 2,564,683 | 2,509,254 |
| Compensated absences payable | <u>873,133</u> | <u>889,064</u> |
| Total current liabilities | <u>\$206,985,030</u> | <u>\$226,902,900</u> |
| CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS: | | |
| Securities lending fees payable | 90,113 | 53,347 |
| Obligations under security lending | 734,878,619 | 830,386,788 |
| Grand prizes payable | <u>172,589,460</u> | <u>194,955,346</u> |
| Total current liabilities payable from restricted assets | <u>\$907,558,193</u> | <u>\$1,025,395,481</u> |
| NONCURRENT LIABILITIES: | | |
| Grand prizes payable | 517,575,574 | 608,552,364 |
| Compensated absences payable | 2,804,008 | 2,942,612 |
| Other long-term liabilities | <u>989,989</u> | <u>457,678</u> |
| Total noncurrent liabilities | <u>521,369,571</u> | <u>611,952,653</u> |
| Total liabilities | <u>\$1,635,912,793</u> | <u>\$1,864,251,035</u> |
| NET ASSETS | | |
| Net investments in capital assets | 1,421,370 | 1,235,168 |
| Unrestricted net assets | (1,458,846) | 8,272,016 |
| Restricted net assets for future prize promotions | 14,971,828 | 53,024,817 |
| Restricted net assets for MUSL | 14,012,888 | 3,073,441 |
| Restricted net assets for undistributed appreciation on restricted investments ² | <u>81,097,228</u> | <u>77,524,733</u> |
| Total net assets | <u>110,044,468</u> | <u>143,130,175</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u><u>\$1,745,957,261</u></u> | <u><u>\$2,007,381,209</u></u> |

¹ Source: Department of the Lottery.

² Restricted Net assets equals the increase in market value of investments.

Management Discussion and Analysis of Financial History

The Florida Lottery is considered a mature lottery with a full complement of both scratch-off and on-line products. In Fiscal Years 2006-07 and 2007-08, the Department maintained lottery sales in excess of \$4 billion, but in Fiscal Years 2008-09 and 2009-10, the Department experienced sales declines dropping annual total sales just below \$4 billion. Although unaudited at this time, the Department has again exceeded \$4 billion in ticket sales for Fiscal Year 2010-11, a 2.8% increase over the prior year. Since its inception, the Lottery has transferred over \$22.7 billion to the Educational Enhancement Trust Fund, with the Fiscal Year 2010-11 transfer exceeding \$1 billion for the ninth consecutive year. Strategies to increase lottery revenues and maximize transfers to the Educational Enhancement Trust Fund are actively pursued by the Department. Despite the impact of the economic downturn, overall ticket sales have increased over the last ten years, primarily due to changes in game structure; targeted promotions; and product enhancements. The latest game added was LUCKY LINES™ in October 2010.

Several of the on-line games have undergone modifications with the most recent being changes to FLORIDA LOTTO™ in March 2008 and October 2009. At the beginning of 2009, the Lottery launched POWERBALL® which is the first new on-line game since the successful launch of MILLIONAIRE RAFFLE™ in November 2006. In May 2008, the Department added a second drawing per day for both CASH 3™ and PLAY 4™. The Lottery has implemented higher prize payouts for both scratch-off and on-line games. In August 2010, CASH 3™ was updated with a new play style called 1-OFF™.

Of the many factors that affect lottery ticket sales, one of the most important is the size of the jackpot, which is mainly impacted by the number of jackpot rollovers. In the past, a large number of players have waited until the FLORIDA LOTTO™ jackpot rolls over before purchasing a ticket, resulting in relatively flat FLORIDA LOTTO™ sales except when large jackpots occur. In October 1999, the Department revised the format of FLORIDA LOTTO™, to include a larger matrix and increased drawings, which were designed to boost ticket sales by causing more jackpot rollovers resulting in larger jackpots. Increases in ticket sales of FLORIDA LOTTO™ since the revised format have occurred in years with multiple large jackpots. One of the impacts of POWERBALL® on FLORIDA LOTTO™ sales is slower jackpot growth. This result does not appear to be caused by fewer rollovers, but because of the smaller, but consistent player base supporting the jackpots. In the eighteen month period prior to the POWERBALL® launch, 31% of the FLORIDA LOTTO™ jackpots rolled six or more times. The average jackpot at that time for a roll series of 6 was \$32 million. After the launch of POWERBALL®, 40% of the FLORIDA LOTTO™ jackpots have rolled 6 or more times, and the current average jackpot at the sixth roll level is approximately \$12 million. In October 2009, the Lottery changed the add-on feature to FLORIDA LOTTO™ to allow players the option of paying an extra \$1 for the chance of increasing their non-jackpot winnings by a randomly selected number between two and five. This feature is called XTRA®.

It has been the experience of the Department and lotteries of other states that a program that increases the prize payout percentages experiences higher sales and greater net profits. Since July 1, 2002, the Department has been statutorily authorized to return variable percentages of scratch-off game revenues as prizes to maximize revenues transferred to the Educational Enhancement Trust Fund, and has instituted this program upon compliance with the covenants contained in the Resolution (see "SECURITY FOR THE SERIES 2011A BONDS - Covenants with Registered Owners"). The implementation of the variable prize payout resulted in strategically varying the payout rate for each of the games within each price level and sales of scratch-off tickets increased \$1.7 billion from Fiscal Years 2001-02 to 2007-08. Effective July 1, 2005, a similar strategy of variable rate prizes was authorized for on-line games. However, the implementation of the on-line strategy is different from the approach taken with scratch-off tickets. The Department ran a holiday promotion as a pilot program and implemented the first permanent variable rate on-line game in March 2006. Prior to July 1, 2005, prizes were set at 50% and the deposit to the Educational Enhancement Trust Fund was set at 39%. The Department does not expect the same rate of return for the on-line games as the scratch-off games, but has seen a positive return from applying the variable prize payout strategy. The first holiday promotion generated \$17.7 million in sales with corresponding Educational Enhancement Trust Fund transfers of \$4.7 million. The on-line product enhancement, EZmatch™, which was introduced in March 2006, has generated over \$154.2 million in sales since its launch and enhanced Educational Enhancement Trust Fund transfers by approximately \$47.9 million during that time. The change to the variable rate prize payout for on-line games resulted from a statutory change which provides that 80% of unclaimed prize money is returned directly to the Educational Enhancement Trust Fund; previously, these funds were used to augment prize payouts (a one-time exception to this occurred in September 2003). In Fiscal Year 2010-2011, \$43.8 million of the \$1.18 billion in Educational Enhancement Trust Fund transfers was from unclaimed prize money.

From Fiscal Year 1995-96 through Fiscal Year 2007-08, the Department experienced a steady growth in year-over-year ticket sales. The overall growth in ticket sales for that period was over \$1.8 billion, which represents a total increase of 89%. These positive results are attributable to a combination of the previously discussed game revisions, prize payout enhancements, expanded retailer network, and increased technology. As part of the gaming system conversion in January 2005, all of the scratch-off only retailers were converted to full service retailers contributing to an increase in on-line sales. In addition, the Department increased the retailer base from 12,000 in January 2005 to approximately 13,270 as of June 30, 2011. In Fiscal Year 2009-10, the Educational Enhancement Trust Fund benefited from contributions of over \$440 million more than was transferred in Fiscal Year 1998-99.

In Fiscal Year 2010-11, unaudited ticket sales increased 7.1% for scratch-off games, but on-line game sales decreased 2.2% from the prior year. During Fiscal Year 2008-09 and 2009-10, the Department worked to offset the impact of the economic downturn. The Department held its operating costs, which includes gaming vendors, retailer commissions, and department operations, to less than 8.9% of ticket sales.

During Fiscal Year 2010-11, the Department not only continued to utilize proven techniques, but also created new promotions and products. As already discussed, the deployment of the ITVMs definitely has contributed to the rising sales in the scratch-off product line. The Department has revised the strategy surrounding the utilization of the MILLIONAIRE RAFFLE™, by trying different price points and themes. In the fall, the Department launched a new play style for the daily game CASH 3™ called 1-OFF™ as well as launched a new instant win on-line game called LUCKY LINES™. FLORIDA LOTTO™ with XTRA® continues to prove to be a strong state game with over 1,200,798 FLORIDA LOTTO™ winners (6%) having selected the XTRA® feature to increase their non-jackpot winnings by over \$45.4 million in cash prizes. The play through rate has steadily increased to its current level of 12% during the life of the product. POWERBALL® has brought in more than \$1 billion in additional sales, which results in additional contributions of more than \$430.0 million to the Educational Enhancement Trust Fund. The Department has utilized numerous second chance drawings and has several more scheduled, to give some of the non-winning players an additional chance to win. During the early spring, the popular MILLIONAIRE RAFFLE™ game, themed around St. Patrick's Day, LUCKY 7 RAFFLE™, produced \$9.6 million in revenue and transfers of more than \$3.2 million to the Educational Enhancement Trust Fund.

One of the Lottery's performance measures, as incorporated by reference in the General Appropriations Act, is operating expense as a percent of total revenue. For the Fiscal Year ended June 30, 2011, this performance measure was again set at 9.52% of total revenue including retailer commissions, on-line games expenses, scratch-off ticket expenses, advertising and other administrative expenses. For the first three quarters of Fiscal Year 2010-11, operating expense, not including prize payouts, was 9.00% of total revenues. Retailer commissions, on-line games expense and scratch-off ticket expense are approximately 7.2% of total sales, and fluctuate from year to year as they are based on a percentage of sales. All unencumbered amounts not utilized in operations are subsequently transferred to the Educational Enhancement Trust Fund after all data is audited.

Grand prize investments are comprised of scratch-off and on-line prize winnings to be paid on a deferred basis if the cash payment option is not selected. The amount of each grand prize includes the anticipated interest earnings on the U.S. Treasury Strips purchased for the related annuity at the time the grand prize is claimed. Grand prize investments are held for the winners by the Board of Administration on behalf of the Department.

With the implementation of GASB 31, a requirement to reflect the fair market value of investments, there have been significant fluctuations in income before operating transfers since 1997. The Department purchases U.S. Treasury Strips to fully fund the liability for payment of lottery prizes. These investments, which are held solely for prize winners, mature at the times and in amounts sufficient to pay lottery prize winners and are not sold prior to maturity. Therefore, year-to-year changes in fair market value of those investments, which are reflected in the financial statements, have no real financial impact on the operations of the Department and therefore have no impact on income available for transfer to the Educational Enhancement Trust Fund. Therefore, the calculation of the transfer amount does not consider changes in market value of those restricted investments. These investments and the corresponding payables are recorded as restricted assets and liabilities held for grand prize winners on the Statement of Net Assets.

On the Statement of Net Assets, the line item "Investments, security lending collateral" consists of investments representing cash collateral held by the Board of Administration on the Department's behalf as part of a securities lending program. The securities lending program administered by the Board of Administration on the Department's behalf began in November 1990.

Economic Factors and Strategic Plans

The main economic factors affecting lottery sales are population growth, personal income growth and employment. Based on the July 2011 Florida Economic Estimating Conference, the population is forecasted to increase 1.52% and 1.64% for the Fiscal Years ending June 30, 2012, and June 30, 2013, respectively. Based on the February 2011 Conference, during these periods real per capita income is expected to increase by 1.7% and 2.2%, respectively and total non-farm employment is forecasted to increase by 1.8% and 2.4%, respectively.

The following are some of the strategies to increase lottery revenues that are being actively pursued by the Department:

Increase the Lottery's player base with innovative new products - Because the Florida Lottery's fluctuating sales growth appears to be stabilizing, new game strategies are being adopted to enhance sales. The current scratch-off games plan focuses on improved prize structures, clear product positioning between price points, timely display of product information and improved launch schedules. Licensed property scratch-off games, such as Bass Pro Shop[®], Monopoly[™], Price is Right[®] and Deal or No Deal[™], broaden the appeal to new players.

The Florida Lottery's on-line product development efforts for the past ten years have primarily focused on improvements to its mix of traditional games. Following the phenomenal sales success of the higher price point scratch-off games, the on-line game focus in recent years has been with higher price point on-line games. As previously discussed, the Department joined the multi-state game POWERBALL[®] as another product offering. POWERBALL[®] players can add Power Play[®] for \$1 more to increase their non-jackpot prizes. The EZmatch[™] instant win feature was added to FANTASY 5[®], LOTTO PLUS[™] and FLORIDA LOTTO[™] with XTRA[®], which provides opportunities for players to win higher prize amounts for additional ticket prices, and midday draws were added for CASH 3[™] and PLAY 4[™]. Limited-offer raffle style games have become a staple in the product mix. Five of the seven \$20 MILLIONAIRE RAFFLE[™] games have sold out their limited number of tickets. The \$5 raffle games such as "Cars and Cash" and "Summer Cash" provide novel prizes such as hybrid cars or gas for a lifetime to appeal to new players. For the first time in 2011, the Department offered a \$10 raffle game with a lower price appealing to another group of players. The latest game added to the on-line product offering is LUCKY LINES[™], which is a completely new play style where players win draw-game like prizes without a draw.

Refresh the Lottery brand through new approaches with technology- Plans are underway to launch several projects to refresh the interest of loyal customers and reach the 18 to 34 year-old demographic, including a redesign of the Flalottery.com website. The Lottery's presence will be seen on various social media allowing interaction not only with current customers, but future customers as well. A VIP loyalty club is expected to reward frequent players via e-mail or text message and send them previews of new games and promotions.

Improve market penetration through expansion of the Lottery's retailer network - The Department is continuing to explore multiple venues in an effort to expand the retailer network. The Department not only desires to expand the total number of retailers selling Lottery products, but also to diversify the minority base of the retailer network. The Department is actively recruiting non-traditional retail sites which might customarily be owned by certain minorities, in addition to the efforts to attract new corporate retailers. The Department increased the distribution of the scratch-off product during 2010 without increasing the retailer network with the return of the Instant Ticket Vending Machines. The Department is focusing efforts on corporate accounts by exploring joint business promotions aimed at increasing revenue streams for both the Lottery and its retailers. In addition, increased efforts are being developed to recruit new corporate accounts that have traditionally not carried lottery products.

Increase the focus of research and product development for the on-line product segment - Over the past six years, the Department's on-line ticket sales have grown by 9.7%, while scratch-off ticket sales have increased by 18.1%. When one excludes the sales decline experienced by the industry as a whole during 2009, there has been a steady growth in the scratch-off product segment throughout the United States lottery market during the past six years without any significant growth in domestic on-line sales. The Department's net margin for its on-line product segment is larger than that of the scratch-off product segment. The Department continues to balance its efforts to recover from the recent decline in scratch-off sales while focusing on ways to continue to increase on-line sales in order to maintain efficient net margins and increase total Educational Enhancement Trust Fund transfers over the long-term. This functional strategy will be accomplished through product extensions, redesign of existing games, on-line game promotions, second chance offers and the exploration of new on-line game concepts that follow

conservative and traditional on-line game play styles. An increase in on-line prize payouts and expansion of the Department's network of full-service retailers as described above is expected to boost total on-line game sales.

Continue to Optimize the prize payout percentages - In an effort to give the Department the flexibility to maximize the amount of revenue available for education purposes, the Florida Legislature has authorized the Department to vary the percentages of scratch-off and on-line ticket revenue distributed as prizes and transferred to the Educational Enhancement Trust Fund. Research indicates that granting the Department the flexibility to vary the prize payout percentage enables it to do two things: 1) increase revenues for transfer to the Educational Enhancement Trust Fund based on a projected increase in ticket sales due to higher prize payouts; and 2) free up a portion of the unclaimed prize money that could then go directly to the Educational Enhancement Trust Fund. Providing the Department the flexibility to vary the prize payout percentage allows both scratch-off and on-line games to operate at or near the levels necessary to maximize revenues for education.

The positive impacts of the above factors may be partially offset by previously described recent negative impacts such as (i) less than forecasted POWERBALL[®] and FLORIDA LOTTO[™] sales due to the lack of rollovers, along with lower interest rates, both of which result in lower jackpots; (ii) the overall state of the economy; and (iii) authorization of slot machines in Broward and Miami-Dade counties (see "FINANCIAL DATA OF THE DEPARTMENT - Management Discussion and Analysis of Financial History" and "THE FLORIDA LOTTERY - Competition").

Projected Revenues

Projections of lottery revenues are developed by the Consensus Revenue Estimating Conference, which is comprised of representatives from the State House of Representatives, the State Senate, the Governor's Office, the Office of Economic and Demographic Research and the Department as a nonvoting member, primarily as an information source. The projected lottery revenues are revised at least semiannually by the Consensus Revenue Estimating Conference. See Appendix A "STATE OF FLORIDA"- "STATE FINANCIAL OPERATIONS - Budgetary Process" for a description of the Consensus Revenue Estimating Conference. The projections are based on the best information available when the estimates are made. ***Investors should be aware that there have been material differences between past projections and actual lottery revenues, and that no assurance can be given that there will not be material differences relating to such amounts in the future. Investors should also be aware that the following information is revised at least twice a year, and, accordingly, such amounts will change. Undue reliance should not be placed on these projections.***

The two most recent lottery revenue estimating conferences were held in November 2010 and February 2011. The February 2011 forecast decreased total income by \$8.6 million to \$3.92 billion for Fiscal Year 2010-11; however, unaudited year-end numbers show total income coming in slightly better than estimated at \$4.01 billion. The February 2011 forecast increased projected total income over the November 2011 forecast by \$17.1 million, \$18.6 million and \$18.9 million for Fiscal Years 2011-12, 2012-13 and 2013-14, to \$3.98 billion, \$4.03 billion, and \$4.10 billion, respectively. The largest change in sales forecast was to the projections for POWERBALL[®], which was reduced by \$33.2 million in Fiscal Year 2010-11 and \$25.1 million in Fiscal Year 2011-12. Projections were also lowered for LOTTO[™], MEGA MONEY[™], and LUCKY LINES[™]. Estimates were increased for scratch-off games by \$28.6 million in Fiscal Year 2010-11 and \$40.0 million in Fiscal Year 2011-12, with smaller increases to sales projections for FANTASY 5[™] and CASH 3[™]. The outlook for PLAY 4[™] and Raffle sales remained unchanged. The February 2011 forecast estimated total income of \$4.16 billion for Fiscal Year 2014-15.

The projections for non-ticket income were decreased by \$1.0 million in Fiscal Year 2010-11 and left unchanged for Fiscal Year 2011-12. The forecast for 80% unclaimed prizes available for immediate transfer to the Educational Enhancement Trust Fund was reduced by \$11.0 million for Fiscal Year 2010-11 and \$4.1 million for Fiscal Year 2011-12 based on the most recent experience in the percentage of prizes which are unclaimed.

The February 2011 conference reduced expected distributions to the Educational Enhancement Trust Fund ("EETF") by \$39.8 million to \$1.14 billion for Fiscal Year 2010-11. Unaudited year-end numbers show actual transfers to the EETF slightly higher than estimated at \$1.18 billion, but down 5.0% from Fiscal Year 2009-10. The February 2011 conference reduced expected distributions to the EETF by \$12.0 million to \$1.17 billion for Fiscal Year 2011-12. The February 2011 conference projected a 2.9% increase in EETF distributions for Fiscal Year 2011-12 over estimated Fiscal Year 2010-11 distributions, with distributions expected to increase annually by approximately 1.5% for each of the following three fiscal years.

The most recent modifications to the forecast were made based on a review of each game's actual sales experienced above or below the prior forecast estimates. In general, pressure is still being placed on the discretionary spending dollar of consumers in the current economic environment with weak disposable income growth and higher inflation.

Department of the Lottery
Projections of Lottery Revenues from Revenue Estimating Conferences of
November 2010 and February 2011 (In Millions)

| | <u>November 2010 Estimate</u> | <u>February 2011 Estimate</u> | <u>Net Change November 2010 to February 2011</u> | <u>% Change November 2010 to February 2011</u> |
|--------------------------|---------------------------------------|---------------------------------------|--|--|
| <u>FY 2010-11</u> | | | | |
| Total Income | \$3,929.8 | \$3,921.2 ² | (\$8.6) | (0.22%) |
| Education ¹ | 1,180.8 | 1,141.0 ² | (39.8) | (3.37%) |
| <u>FY 2011-12</u> | | | | |
| Total Income | \$3,965.8 | \$3,982.9 | \$17.1 | 0.43% |
| Education ¹ | 1,186.0 | 1,174.0 | (12.0) | (1.01%) |
| <u>FY 2012-13</u> | | | | |
| Total Income | \$4,014.8 | \$4,033.4 | \$18.6 | 0.46% |
| Education ¹ | 1,200.6 | 1,193.5 | (7.1) | (0.59%) |
| <u>FY 2013-14</u> | | | | |
| Total Income | \$4,078.2 | \$4,097.1 | \$18.9 | 0.46% |
| Education ¹ | 1,219.3 | 1,212.2 | (7.1) | (0.58%) |
| <u>FY 2014-15</u> | | | | |
| Total Income | n/a | \$4,161.1 | - | - |
| Education ¹ | n/a | 1,231.0 | - | - |

Source: February 2011 Consensus Revenue Estimating Conference.

¹ These figures reflect the transfer of the amount of net ticket revenues, unclaimed prizes and other income sources less applicable expenses. They do not reflect any additional distributions resulting from unspent appropriations or transfers of retained earnings. Projections include the transfer of 80% of unclaimed prize moneys. See "Transfers to the Educational Enhancement Trust Fund."

² Preliminary year-end unaudited numbers reflect \$4.01 billion in total sales and \$1.18 billion in transfers to the EETF.

Debt Service Coverage Ratios

The following schedules reflect debt service coverage based upon historical and projected Pledged Revenues, which are deposits into the Educational Enhancement Trust Fund. The amounts for debt service shown in the Debt Service Coverage on Projected Revenues schedule reflects debt service on the Outstanding Bonds and the Series 2011A Bonds (excluding the refunded Series 2002A and 2002B Bonds and the Series 2002C and 2003A Bonds to be refunded with this bond issue), and the estimated maximum aggregate annual debt service on the Bonds.

Debt Service Coverage on Historical Pledged Revenues
(In Thousands)

| | <u>Fiscal Years Ended June 30</u> | | | | |
|--|-----------------------------------|-------------|-------------|-------------|-------------|
| | <u>2006</u> | <u>2007</u> | <u>2008</u> | <u>2009</u> | <u>2010</u> |
| Pledged Revenues ¹ | \$1,224,651 | \$1,263,272 | \$1,283,414 | \$1,287,855 | \$1,246,794 |
| Annual Debt Service for Outstanding Bonds | \$202,352 | \$209,499 | \$238,481 | \$285,121 | \$303,446 |
| Debt Service Coverage on Annual Debt Service for Outstanding Bonds | 6.1x | 6.0x | 5.4x | 4.5x | 4.1x |
| Maximum Annual Debt Service for Outstanding Bonds | \$211,306 | \$211,306 | \$264,913 | \$293,388 | \$336,626 |
| Debt Service Coverage on Maximum Annual Debt Service for Outstanding Bonds | 5.8x | 6.0x | 4.8x | 4.4x | 3.7x |

¹ Source: Department of the Lottery Audited Financial Statements for Fiscal Years 2005-06 through 2009-10.

**Debt Service Coverage on Projected Revenues
(In Thousands)**

| | Fiscal Years Ending June 30 | | | | |
|---|------------------------------------|-------------|-------------|-------------|-------------|
| | 2011 | 2012 | 2013 | 2014 | 2015 |
| Pledged Revenues ¹ | \$1,184,000 | \$1,174,000 | \$1,193,500 | \$1,212,200 | \$1,231,000 |
| Estimated Annual Debt Service on Outstanding Bonds and Series 2011A Bonds ² | \$306,079 | \$311,057 | \$309,605 | \$309,647 | \$309,527 |
| Debt Service Coverage on Estimated Annual Debt Service on Outstanding Bonds and Series 2011A Bonds ³ | 3.87x | 3.77x | 3.85x | 3.91x | 3.98x |
| Estimated Maximum Annual Debt Service on Outstanding Bonds and Series 2011A Bonds ^{2,4} | \$329,367 | \$328,020 | \$328,020 | \$328,020 | \$328,020 |
| Debt Service Coverage on Estimated Maximum Annual Debt Service on Outstanding Bonds and Series 2011A Bonds ⁵ | 3.59x | 3.58x | 3.64x | 3.70x | 3.75x |

¹ Projections from the February 2011 Consensus Revenue Estimating Conference except for Fiscal Year 2011 which is the preliminary unaudited year-end amount. These figures reflect the transfers of the variable percentages of gross lottery revenues permitted by the Act. They do not reflect any additional distributions resulting from unused appropriations or transfers of net assets, but do reflect the estimated transfer of 80% of unclaimed prize money.

² Assumes actual debt service on Outstanding Bonds without consideration of the expected receipt of the Federal subsidy equal to 35% of the interest payable on the 2010B Bonds, which does not constitute Pledged Revenues but is expected to be deposited into the Sinking Fund; excludes debt service of approximately \$19.4 million in 2012, \$36.1 million in 2013, and \$58.2 million annually in 2014 and 2015 for the Series 2002A and 2002B Bonds, which were refunded by the Series 2010F Bonds and which will be called for redemption on July 1, 2012 and the Series 2002C and 2003A Bonds that are anticipated to be refunded by the Series 2011A Bonds and which will be called for redemption on January 1, 2013 and July 1, 2013, respectively. The refunded bonds either were not or will not be, legally defeased.

³ The Debt Service Coverage on Estimated Annual Debt Service on Outstanding Bonds and Series 2011A Bonds would total 3.70x, 3.56x, 3.45x, 3.30x and 3.35x for Fiscal Years 2011-2015, respectively, if debt service on the refunded Series 2002A, 2002B, 2002C and 2003A Bonds is included in estimated annual debt service.

⁴ Estimated Maximum Annual Debt Service for all Outstanding Bonds and the Series 2011A Bonds is estimated to occur in Fiscal Year 2017-18. Excludes debt service of approximately \$58.2 million in Fiscal Years 2012-2015 for the Series 2002A and 2002B Bonds, which were refunded by the Series 2010F Bonds and will be called for redemption on July 1, 2012 and the Series 2002C and 2003A Bonds that are anticipated to be refunded by the Series 2011A Bonds and which will be called for redemption on January 1, 2013 and July 1, 2013, respectively. For a more detailed explanation, see note 2, above.

⁵ The Debt Service Coverage on Estimated Maximum Annual Debt Service on Outstanding Bonds and Series 2011A Bonds would total 3.35x, 3.04x, 3.09x, 3.14x and 3.19x for Fiscal Years 2011-2015, respectively, if debt service on the Series 2002A, 2002B, 2002C and 2003A Bonds is included in maximum annual debt service on Outstanding Bonds and Series 2011A Bonds.

These projections are based on the best information available when the estimates are made, which is believed to be accurate. ***Investors should be aware that there have been material differences between past projections and actual lottery revenues, and that no assurance can be given that there will not be material differences relating to such amounts in the future. Investors should also be aware that the following information is revised at least twice a year, and, accordingly, such amounts will change. Undue reliance should not be placed on these projections.***

SCHEDULE OF ESTIMATED DEBT SERVICE*

The table below shows the debt service on the Outstanding Bonds, the estimated debt service on the Series 2011A Bonds, and the total estimated debt service.

| Fiscal Year Ending <u>June 30</u> | Debt Service on Outstanding Bonds ^{1, 2} | Estimated Series 2011A Bonds Debt Service ³ | | | Total Estimated Debt Service |
|---|---|--|---------------------|----------------------|---------------------------------|
| | | Principal | Interest | Total | |
| 2012 | \$302,600,235 ⁴ | - | \$8,456,625 | \$8,456,625 | \$311,056,860 |
| 2013 | 299,456,714 | - | 10,147,950 | 10,147,950 | 309,604,664 |
| 2014 | 277,334,514 | \$22,165,000 | 10,147,950 | 32,312,950 | 309,647,464 |
| 2015 | 277,216,627 | 23,160,000 | 9,150,525 | 32,310,525 | 309,527,152 |
| 2016 | 277,157,364 | 24,200,000 | 8,108,325 | 32,308,325 | 309,465,689 |
| 2017 | 277,144,564 | 25,290,000 | 7,019,325 | 32,309,325 | 309,453,889 |
| 2018 | 295,714,214 | 26,425,000 | 5,881,275 | 32,306,275 | 328,020,489 |
| 2019 | 244,654,977 | 27,620,000 | 4,692,150 | 32,312,150 | 276,967,127 |
| 2020 | 205,377,044 | 28,865,000 | 3,449,250 | 32,314,250 | 237,691,294 |
| 2021 | 162,656,391 | 30,160,000 | 2,150,325 | 32,310,325 | 194,966,716 |
| 2022 | 165,387,615 | 17,625,000 | 793,125 | 18,418,125 | 183,805,740 |
| 2023 | 154,063,242 | - | - | - | 154,063,242 |
| 2024 | 137,976,555 | - | - | - | 137,976,555 |
| 2025 | 121,387,635 | - | - | - | 121,387,635 |
| 2026 | 108,166,636 | - | - | - | 108,166,636 |
| 2027 | 91,365,036 | - | - | - | 91,365,036 |
| 2028 | 54,117,305 | - | - | - | 54,117,305 |
| 2029 | 12,646,192 | - | - | - | 12,646,192 |
| | <u>\$3,464,422,860</u> | <u>\$225,510,000</u> | <u>\$69,996,825</u> | <u>\$295,506,825</u> | <u>\$3,759,929,685</u> |

* Totals may not add due to rounding.

¹ Interest on the 2011A Bonds was calculated without consideration of the expected receipt of the federal subsidy equal to 35% of the interest payable on the 2011A Bonds which does not constitute Pledged Revenues but is expected to be deposited into the Sinking Fund.

² Excludes debt service of approximately \$19.4 million in 2012, \$36.1 million in 2013, \$58.2 million annually in 2014-2021, and \$31 million in 2022 for the Series 2002A and 2002B Bonds, which were refunded by the Series 2010F Bonds and will be called for redemption on July 1, 2012, and the Series 2002C and 2003A Bonds that are anticipated to be refunded by the Series 2011A Bonds and which will be called for redemption on January 1, 2013 and July 1, 2013, respectively. The refunded bonds either were not, or are not anticipated to be, legally defeased.

³ Preliminary, subject to change.

⁴ Includes approximately \$1.9 million accrued in and transferred from the sinking fund to escrow accounts to pay a portion of the debt service on refunded bonds.

PROVISIONS OF STATE LAW

Bonds Legal Investment for Fiduciaries

The State Bond Act provides that all bonds issued by the Division of Bond Finance are legal investments for state, county, municipal or other public funds, and for banks, savings banks, insurance companies, executors, administrators, trustees, and all other fiduciaries and also are securities eligible as collateral deposits for all state, county, municipal, or other public funds.

Negotiability

The Series 2011A Bonds will have all the qualities and incidents of negotiable instruments under the Uniform Commercial Code - Investment Securities Law of the State.

TAX MATTERS

The Internal Revenue Code of 1986, as amended (the "Code"), establishes certain requirements which must be met subsequent to the issuance and delivery of the Series 2011A Bonds in order that interest on the Series 2011A Bonds be and remain excluded from gross income for purposes of federal income taxation. Non-compliance may cause interest on the Series 2011A Bonds to be included in federal gross income retroactive to the date of issuance of the Series 2011A Bonds, regardless of the date on which such non-compliance occurs or is ascertained. These requirements include, but are not limited to, provisions which prescribe yield and other limits within which the proceeds of the Series 2011A Bonds and the other amounts are to be invested and require that certain investment earnings on the foregoing must be rebated on a periodic basis to the Treasury Department of the United States. The Board, the Division of Bond Finance and the Board of Administration have covenanted in the Resolution to comply with such requirements in order to maintain the exclusion from federal gross income of the interest on the Series 2011A Bonds.

In the opinion of Bond Counsel, assuming compliance with the aforementioned covenants, under existing laws, regulations, judicial decisions and rulings, interest on the Series 2011A Bonds is excluded from gross income of the holders thereof for purposes of federal income taxation. Interest on the Series 2011A Bonds is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals or corporations, however, interest on the Series 2011A Bonds will be taken into account in determining adjusted current earnings for purposes of computing the alternative minimum tax on corporations. The Series 2011A Bonds and the income thereon are not subject to any tax under the laws of the State of Florida except estate taxes imposed by Chapter 198, Florida Statutes, as amended, and net income and franchise taxes imposed by Chapter 220, Florida Statutes, as amended.

Except as described above, Bond Counsel will express no opinion regarding the federal income tax consequences resulting from the ownership of, receipt or accrual of interest on, or disposition of Series 2011A Bonds. Prospective purchasers of Series 2011A Bonds should be aware that the ownership of Series 2011A Bonds may result in collateral federal income tax consequences, including (i) the denial of a deduction for interest on indebtedness incurred or continued to purchase or carry Series 2011A Bonds, (ii) the reduction of the loss reserve deduction for property and casualty insurance companies by 15% of certain items, including interest on the Series 2011A Bonds, (iii) the inclusion of interest on the Series 2011A Bonds in earnings of certain foreign corporations doing business in the United States for purposes of a branch profits tax, (iv) the inclusion of interest on Series 2011A Bonds in passive income subject to federal income taxation of certain Subchapter S corporations with Subchapter C earnings and profits at the close of the taxable year, and (v) the inclusion of interest on the Series 2011A Bonds in "modified adjusted gross income" by recipients of certain Social Security and Railroad Retirement benefits for purposes of determining whether such benefits are included in gross income for federal income tax purposes.

Tax Treatment of Bond Premium. Certain of the Series 2011A Bonds may be offered at prices in excess of the principal amount thereof. Under the Code, the excess of the cost basis of a bond over the principal amount of the bond (other than for a bondholder who holds a bond 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 bonds or to the first optional redemption date in the case of callable bonds. A bondholder will therefore be required to decrease his basis in the Series 2011A Bonds by the amount of amortizable bond premium attributable to each taxable year such bondholder holds such Series 2011A Bond. The amount of the 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.

Bondholders of such Series 2011A Bonds should consult their own tax advisors with respect to the precise determination of federal income tax treatment of bond premium upon sale, redemption, or other disposition of such Series 2011A Bonds.

Tax Treatment of Original Issue Discount. Certain of the Series 2011A Bonds may be offered and sold to the public at prices below their maturity amount. Under the Code, the difference between the maturity amounts of such Series 2011A Bonds and the initial offering price to the public, excluding bond houses, brokers or similar persons or organizations acting in the capacity of underwriters or wholesalers, at which price a substantial amount of Series 2011A Bonds of the same maturity was sold is “original issue discount.” Original issue discount will accrue over the terms of such Series 2011A Bonds at a constant interest rate compounded periodically. A purchaser who acquires such Series 2011A Bonds in the initial offering at a price equal to the initial offering price thereof to the public will be treated as receiving an amount of interest excludable from gross income for federal income tax purposes equal to the original issue discount accruing during the period he holds such Series 2011A Bonds, and will increase his adjusted basis in such Series 2011A Bonds by the amount of such accruing discount for purposes of determining taxable gain or loss on the sale or other disposition of such Series 2011A Bonds. The federal income tax consequences of the purchase, ownership and redemption, sale or other disposition of such Series 2011A Bonds which are not purchased in the initial offering at the initial offering price may be determined according to rules which differ from those above. Owners of such Series 2011A Bonds should consult their own tax advisors with respect to the precise determination for federal income tax purposes of interest accrued upon sale, redemption or other disposition of Series 2011A Bonds and with respect to the state and local tax consequences of owning and disposing of such Series 2011A Bonds.

Purchase, ownership or sale or disposition of the Series 2011A Bonds and the receipt of the interest thereon may have adverse federal tax consequences for certain individual and corporate bondholders. Prospective Series 2011A Bondholders should consult their tax specialists for information in that regard.

During recent years legislative proposals have been introduced in Congress, and in some cases enacted, that altered certain federal tax consequences resulting from the ownership of obligations that are similar to the Series 2011A Bonds. In some cases these proposals have contained provisions that altered these consequences on a retroactive basis. Such alteration of federal tax consequences may have affected the market value of obligations similar to the Series 2011A Bonds. From time to time, legislative proposals are pending which could have an effect on both the federal tax consequences resulting from ownership of the Series 2011A Bonds and their market value. No assurance can be given that legislative proposals will not be introduced or enacted that would or might apply to, or have an adverse affect upon, the Series 2011A Bonds.

State Taxes. The Series 2011A Bonds and the income therefrom are not subject to any taxation by the State or any county, municipality, political subdivision, agency, or instrumentality of the State, except estate taxes imposed by Chapter 198, Florida Statutes, as amended, and net income and franchise taxes imposed by Chapter 220, Florida Statutes, as amended.

Florida laws governing the imposition of estate taxes do not provide for an exclusion of state or local bonds from the calculation of the value of the gross estate for tax purposes. Florida’s estate tax is generally calculated on the basis of the otherwise unused portion of the federal credit allowed for state estate taxes. Under Chapter 198, Florida Statutes, all values for state estate tax purposes are as finally determined for federal estate tax purposes. Since state and local bonds are included in the valuation of the gross estate for federal tax purposes, such obligations would be included in such calculation for Florida estate tax purposes. Prospective owners of the Series 2011A Bonds should consult their own attorneys and advisors for the treatment of the ownership of the Series 2011A Bonds for estate tax purposes.

The Series 2011A Bonds and the income therefrom are subject to the tax imposed by Chapter 220 on interest, income, or profits on debt obligations owned by corporations and other specified entities.

INDEPENDENT AUDITORS

The financial statements of Florida’s Department of the Lottery as of and for the Fiscal Year ended June 30, 2010, included in Appendix E of this Official Statement have been audited by the Florida Auditor General.

MISCELLANEOUS

Investment of Funds

All State funds are invested by either the Chief Financial Officer or the Board of Administration.

Funds Held Pursuant to the Resolution -The Resolution directs the manner in which funds held in the various funds and accounts for the Bonds may be invested. At closing, the net proceeds of the 2011A Bonds will be deposited into a fund in the State Treasury of Florida. After collection, the Pledged Revenues are deposited into the Lottery Trust Fund and from there are transferred monthly to the Educational Enhancement Trust Fund, which are each held in the State Treasury. Funds allocable to the Lottery Bond Program are transferred monthly from the Educational Enhancement Trust Fund to the Lottery Capital Outlay and Debt Service Trust Fund also held in the State Treasury. Thereafter, on the 24th day of each month, revenues are transferred to the Board of Administration for deposit into the Sinking Fund for the next installments of principal and interest. See "*Investment by the Board of Administration*" below for the Board of Administration's investment policy with respect to sinking fund investments.

Investment by the Chief Financial Officer - Funds held in the State Treasury are invested by internal and external investment managers. As of June 30, 2011, the ratio was approximately 54% internally managed funds, 32% externally managed funds, and 14% Certificates of Deposit and Security Lending. The total portfolio market value was \$20,646,352,705.79 on June 30, 2011.

Under State law, the Treasury is charged with investing funds of each State agency and the judicial branch. As of June 30, 2011, \$11.320 billion of the investments in the Treasury consisted of accounts held by State agencies that are required by law to maintain their investments in the Treasury. An additional \$6.356 billion as of this date consisted of moneys held by certain boards, associations, or entities created by the State Constitution or by State law that are not required to maintain their investments with the Treasury and are permitted to withdraw these funds from the Treasury.

As provided by State law, the Treasury must be able to timely meet all disbursement needs of the State. Accordingly, the Treasury allocates its investments to provide for estimated disbursements plus a cushion for liquidity in instances of greater-than-expected disbursement demand.

To this end, a portion of Treasury's investments are managed for short-term liquidity and preservation of principal. The remainder is managed to obtain maximum yield, given the safety parameters of State law and Treasury's investment policies. Investments managed for short-term liquidity and preservation of principal are managed "internally" by Treasury personnel. The majority of investments managed for a maximum return are managed by "external" investment managers not employed by the State, although a portion (approximately \$2.7 billion) of such investments is managed internally by Treasury personnel.

The Externally Managed Investment Program provides long-term value while limiting risk appropriately and provides a backup source of liquidity. External investment strategy focuses on medium-term and long-term fixed income securities, rather than money market instruments, in order to take advantage of higher returns historically achieved by such securities. Portfolio managers are hired to actively manage funds. These funds may be invested in U.S. Treasury government agency obligations, investment grade corporate debt, municipal debt, mortgage backed securities, asset backed securities, negotiable certificates of deposit, and U.S. dollar denominated investment-grade foreign bonds that are registered with the Securities and Exchange Commission. The managers may also use leveraging techniques such as forward purchase commitments, covered options, and interest rate futures.

Investment by the Board of Administration - The Board of Administration manages investment of assets on behalf of the members of the Florida Retirement System (the "FRS") Defined Benefit Plan. It also acts as sinking fund trustee for most State bond issues and oversees the management of a short-term investment pool for local governments and smaller trust accounts on behalf of third party beneficiaries.

The Board of Administration adopts specific investment policy guidelines for the management of its funds which reflect the long-term risk, yield, and diversification requirements necessary to meet its fiduciary obligations. As of December 31, 2010, the Board of Administration directed the investment/administration of 40 funds in over 450 portfolios.

As of December 31, 2010, the total market value of the FRS (Defined Benefit) Trust Fund was \$124,171,243,188. The Board of Administration pursues an investment strategy which allocates assets to different investment types. The long-term objective is to meet liability needs as determined by actuarial assumptions. Asset allocation levels are determined by the liquidity and cash flow requirements of the FRS, absolute and relative valuations of the asset class investments, and opportunities within those asset classes. Funds are invested internally and externally under a Defined Benefit Plan Investment Policy Statement.

The Board of Administration uses a variety of derivative products as part of its overall investment strategy. These products are used to manage risk or to execute strategies more efficiently or more cost effectively than could be done in the cash markets. They are not used to speculate in the expectation of earning extremely high returns. Any of the products used must be within investment policy guidelines designed to control the overall risk of the portfolio.

The Board of Administration invests assets in 39 designated funds other than the FRS (Defined Benefit) Trust Fund. As of December 31, 2010, the total market value of these funds equaled \$28,263,332,754. Each fund is independently managed by the Board of Administration in accordance with the applicable documents, legal requirements and investment plan. Liquidity and preservation of capital are preeminent investment objectives for most of these funds, so investments for these are restricted to high quality money market instruments (e.g., cash, short-term treasury securities, certificates of deposit, banker's acceptances, and commercial paper). The term of these investments is generally short, but may vary depending upon the requirements of each trust and its investment plan.

Investment of bond sinking funds is controlled by the resolution authorizing issuance of a particular series of bonds. The Board of Administration's investment policy with respect to sinking funds is that only U.S. Treasury securities, and repurchase agreements backed thereby, be used.

Bond Ratings

Standard & Poor's Ratings Services, Moody's Investors Service and Fitch Ratings (herein referred to collectively as "Rating Agencies"), have assigned their municipal bond ratings of ___, ___ and ___, respectively, to the Series 2011A Bonds. Such ratings reflect only the respective views of such Rating Agencies at the time such ratings were issued, and an explanation of the significance of such ratings may be obtained from any of the respective rating agencies.

The State furnished to such Rating Agencies certain information and material in respect to the State and the Series 2011A Bonds. Generally, Rating Agencies base their ratings on such information and materials and on investigations, studies and assumptions made by the Rating Agencies. There is no assurance that such ratings will be maintained for any given period of time or that they may not be lowered, suspended or withdrawn entirely by the Rating Agencies, or any of them, if in their or its judgment, circumstances warrant. Any such downward change in, suspension of or withdrawal of such ratings may have an adverse effect on the market price of the Series 2011A Bonds.

Certain companies provide either bond insurance or reserve account surety bonds on various series of Outstanding Bonds. The Rating Agencies have evaluated (and are continuing to evaluate) the effects of the downturn in the market for certain structured finance instruments, including collateralized debt obligations and residential mortgage backed securities, on the claims-paying ability of financial guarantors. The results of these evaluations have included and may include additional ratings affirmations, changes in rating outlook, reviews for downgrade, and downgrades. To date, the Rating Agencies have downgraded the following companies as indicated: MBIA Insurance Corporation (MBIA) - S&P/B, Moody's/B3. MBIA has a negative outlook by S&P and Moody's. Fitch has withdrawn its ratings for Ambac Assurance Corporation (Ambac), Financial Guaranty Insurance Company (FGIC) and MBIA; Moody's and S&P have withdrawn their ratings for FGIC and Ambac. Potential investors are directed to the Rating Agencies for additional information on their ongoing evaluations of the financial guaranty industry and individual financial guarantors.

Verification of Mathematical Calculations

The mathematical accuracy of the computations relating to the amount of potential cash receipts from funds held in a fund invested by the State Treasury and interest earnings thereon to pay the principal of, redemption premium, and interest on the Refunded Bonds, and the mathematical accuracy of the computations supporting the conclusion of Bond Counsel that the 2011A Bonds will not be “arbitrage bonds” under the Internal Revenue Code of 1986, will be verified by Causey Demgen & Moore, Inc., Certified Public Accountants, as a condition of the delivery of the 2011A Bonds. The Refunded Bonds will be economically, but not legally, defeased. See “REFUNDING PROGRAM,” above.

Litigation

Currently there is no litigation pending, or to the knowledge of the Department, the Board of Education or the Division of Bond Finance threatened, which if successful would have the effect of restraining or enjoining the issuance or delivery of the Series 2011A Bonds or questioning or affecting the validity of the Series 2011A Bonds or the proceedings and authority under which such Series 2011A Bonds are to be issued. The Department and the Board of Education from time to time engage in litigation the outcome of which would not be expected to have any material adverse effect on the issuance and delivery of the Series 2011A Bonds.

Legal Opinion and Closing Certificates

The approving legal opinion of Bryant Miller Olive P.A., Tallahassee, Florida, Bond Counsel, will be provided on the date of delivery of the Series 2011A Bonds, as well as a certificate, executed by appropriate State officials, to the effect that to the best of their knowledge the Official Statement, as of its date and as of the date of delivery of the Series 2011A Bonds, does not contain an untrue statement of a material fact or omit to state a material fact which should be included herein for the purpose for which the Official Statement is intended to be used, or which is necessary to make the statements contained herein, in the light of the circumstances under which they were made, not misleading. The proposed form of the legal opinion of Bond Counsel is attached hereto as Appendix F.

Continuing Disclosure

The Board of Education and the Department of the Lottery will undertake, for the benefit of the beneficial owners and Registered Owners of the Series 2011A Bonds, to provide, or cause to be provided, certain financial information and operating data and to provide notices of certain material events. Such financial information and operating data will be transmitted to the Municipal Securities Rulemaking Board (the “MSRB”) using its Electronic Municipal Market Access System (“EMMA”). Any notice of material events will also be transmitted to the MSRB using EMMA. The form of the undertaking is set forth in Appendix G, Form of Continuing Disclosure Agreement. This undertaking is being made in order to assist the underwriters in complying with Rule 15c2-12 of the Securities and Exchange Commission.

Neither the Board of Education, the Department of the Lottery nor the Division of Bond Finance has failed to make any disclosures required by Rule 15c2-12.

Underwriting

_____ (the “Underwriters”) have agreed to purchase the Series 2011A Bonds at an aggregate purchase price of \$_____ (which represents the par amount of the Series 2011A Bonds [plus][minus] an original issue [premium][discount] of \$_____ and minus the Underwriters’ discount of \$_____). The Underwriters may offer and sell the Series 2011A Bonds to certain dealers (including dealers depositing bonds into investment trusts, including trusts managed by the Underwriters) at prices lower than the initial offering prices. The offering prices or yields on the Series 2011A Bonds set forth on the inside front cover may be changed after the initial offering by the Underwriters.

Execution of Official Statement

The execution and delivery of this Official Statement have been duly authorized by the Board of Education and the Division of Bond Finance.

STATE OF FLORIDA
DIVISION OF BOND FINANCE

CHARLIE CRIST
Governor, as Chairman
of the Governing Board

J. BEN WATKINS III
Director, Division of Bond Finance

STATE BOARD OF EDUCATION

KATHLEEN SHANAHAN
Chair

[This page intentionally left blank]

STATE OF FLORIDA
STATISTICAL, DEMOGRAPHIC
AND
FINANCIAL INFORMATION

The information contained in this Appendix is intended to provide an overview of the organization of the State's government, as well as general economic, financial and demographic data which might be of interest in connection with the foregoing Official Statement. All information contained herein has been obtained from sources believed to be accurate and reliable. Estimates of future results are statements of opinion based on the most recent information available, which is believed to be accurate. Such estimates are subject to risks and uncertainties which may cause actual results to differ materially from those set forth herein.

(Remainder of page intentionally left blank)

TABLE OF CONTENTS

| | Page |
|--|------|
| GENERAL HISTORY AND GEOGRAPHY | A-1 |
| STATE GOVERNMENT | A-1 |
| Executive Branch | A-1 |
| Legislative Branch | A-1 |
| Judicial Branch | A-1 |
| Services Provided by State Government | A-1 |
| DEMOGRAPHIC & ECONOMIC INFORMATION | A-3 |
| Population | A-3 |
| Florida's Gross Domestic Product | A-4 |
| Housing Starts and Construction Value | A-5 |
| Employment | A-6 |
| Income | A-7 |
| International Trade | A-9 |
| Primary Sources of Sales Tax | A-9 |
| STATE FINANCIAL OPERATIONS | A-10 |
| Budgetary Process | A-10 |
| Revenue Estimates | A-11 |
| State Revenue Limitation | A-11 |
| Financial Control | A-11 |
| Budget Shortfalls | A-12 |
| Evaluation, Accounting and Auditing Procedures | A-12 |
| REVENUES | A-12 |
| Sales and Use Tax | A-12 |
| Motor Fuel Tax | A-13 |
| Alcoholic Beverage Tax | A-13 |
| Corporate Income Tax | A-13 |
| Documentary Stamp Tax | A-13 |
| Intangible Personal Property Tax | A-14 |
| Insurance Premium Tax | A-14 |
| Gross Receipts Tax | A-14 |
| Communications Services Tax | A-14 |
| Other State Taxes | A-14 |
| Tobacco Litigation Settlement | A-14 |
| Lottery | A-14 |
| FLORIDA FINANCIAL INFORMATION | A-14 |
| Five Year History of Trust Fund and General Revenues | A-15 |
| Financial Retrospect and Outlook Statements | A-17 |
| Actual and Projected General Revenues | A-19 |
| Operating and Fixed Capital Outlay Budget by Program Area | A-20 |
| STATE DEBT | A-21 |
| State Full Faith and Credit Debt | A-21 |
| State Revenue Bonds | A-21 |
| Other Obligations | A-21 |
| STATEMENT OF ASSETS AND LIABILITIES | A-25 |
| FLORIDA RETIREMENT SYSTEM | A-26 |
| RETIREE HEALTH INSURANCE SUBSIDY AND OTHER POSTEMPLOYMENT BENEFITS | A-29 |
| Retiree Health Insurance Subsidy Program | A-29 |
| Other Postemployment Benefits | A-30 |
| UNEMPLOYMENT COMPENSATION TRUST FUND | A-32 |

(This page intentionally left blank)

STATE OF FLORIDA

GENERAL HISTORY AND GEOGRAPHY

Juan Ponce de Leon made the first recorded landing in Florida in 1513, and subsequently claimed the territory for Spain. The Spaniards founded the first permanent settlement, St. Augustine, in 1565. Florida was acquired by the United States from Spain in 1821, became a territory of the United States in 1822, and was admitted to statehood in 1845 as the 27th state. The State capital is the city of Tallahassee.

Florida is the 26th largest state with land area of 54,252 square miles and a water area of 4,308 square miles, with tidal shoreline in excess of 2,200 miles.

Florida has 67 counties and approximately 405 municipalities.

STATE GOVERNMENT

Florida's governmental powers are divided among the executive, legislative and judicial branches.

Executive Branch

In 1998, voters approved amendments to the State constitution which restructured the State Cabinet. Since adoption of the amendments, the State legislature has adopted several measures to implement the constitutional changes and to otherwise reorganize the executive branch of the State government.

The supreme executive power is vested in the Governor. The Lieutenant Governor acts as Governor upon a vacancy in the office or incapacity of the Governor. The executive branch consists of the Governor and Cabinet, which is comprised of the Attorney General, the Chief Financial Officer, and the Commissioner of Agriculture, each of whom is elected for four years. All executive functions are allotted among not more than 25 departments under the direct supervision of the Governor, Lt. Governor, Governor and Cabinet, or a Cabinet Member. The State Constitution limits cabinet members to eight consecutive years in office. A governor who has served for more than 6 years in two consecutive terms may not be re-elected for the succeeding term.

Legislative Branch

The legislative power of the State is vested in a bicameral legislature, consisting of a senate and a house of representatives. There are 40 senatorial districts and 120 representative districts within the State. Senators are elected for four-year terms and representatives for two-year terms. The State Constitution also limits legislators to eight consecutive years in office.

Regular sessions of the legislature convene on the first Tuesday after the first Monday in March of each odd-numbered year, and on the first Tuesday after the first Monday in March, or such other date as may be fixed by law, of each even-numbered year, and shall not exceed 60 days. Special sessions may be called by the Governor or by joint proclamation of the President of the Senate and the Speaker of the House of Representatives.

Judicial Branch

The judicial power is vested in a supreme court, 5 district courts of appeal, 20 circuit courts and 67 county courts. As a result of a constitutional amendment adopted in 1998, as of July 1, 2004 the legislature began funding certain costs of the judicial system previously borne by the counties.

Services Provided by State Government

The State provides a wide range of services to its residents and to its local government units. The education system is the most extensive service provided by the State. On November 5, 2002, voters approved constitutional amendments requiring class size

reductions and providing for a free, voluntary pre-kindergarten program for 4-year-olds.

Over half of the State's general revenue appropriations are for education. All tax supported schools, from kindergarten through postsecondary, constitute a single, unified system of public education under the State Board of Education. Each of Florida's 67 counties comprises a single school district operating under an elected district school board. In addition, there are 49 area vocational-technical centers administered by the local school boards. The State's 28 Florida College System institutions (formerly community colleges) and eleven State universities are operated by local boards of trustees, under the oversight of the State Board of Education.

Government services are generally organized along functional or program lines into departments, which constitute the principal administrative units within the executive branch. Listed below are the departments and a brief summary of their respective responsibilities.

Agency for Health Care Administration is the State's chief health policy and planning entity, and oversees the health care industry in the State.

Department of Agriculture and Consumer Services inspects food and other consumer products to assure public safety, and assists in producing and promoting agricultural products as well as conserving agricultural resources. It also protects consumers against unfair and deceptive business practices and licenses private security, investigative and repossession services.

Department of Business and Professional Regulation ensures that regulated industries and certain non-medical professionals meet prescribed standards of education, competency and practice. It also administers the State's child and farm labor laws and oversees workplace regulation and enforcement.

Department of Children and Family Services provides family and health services to promote self sufficiency. The department addresses neglect, abuse or exploitation of children and adults unable to protect themselves, and provides services to preserve families, prevent inappropriate institutional care and improve quality of life for people with mental illnesses. The *Agency for Persons With Disabilities*, an independent entity housed within the department, is responsible for providing services to developmentally disabled persons.

Department of Citrus exercises its powers to stabilize and protect the citrus industry of the State.

Department of Corrections is responsible for the incarceration, supervision and rehabilitation of criminal offenders. The *Florida Corrections Commission* monitors the State's correctional system and makes correctional policy recommendations.

Department of Economic Opportunity oversees and coordinates economic development, housing, growth management, and community development programs, and unemployment compensation. The department was created by Chapter 2011-142, L.O.F. The department is required to develop a statewide five-year strategic plan to address the promotion of business formation, expansion, recruitment, and retention in order to create jobs for all regions of the state. The first strategic plan is due September 1, 2011. The new department will include the Office of Tourism, Trade, and Economic Development as well as portions of the Department of Community Affairs (DCA) and the Agency for Workforce Innovation (AWI), and the Ready to Work Program from the Department of Education. Remaining portions of DCA and AWI will be transferred to several other existing state agencies.

Department of Education, under the direction of the State Board of Education, implements education policy and oversees Florida's education system through curriculum development, student assessment, teacher standards and certification, financial assistance, instructional support, community services, and workforce development and vocational rehabilitation programs. It also participates in oversight of higher education by providing support for the State's Florida College System institutions (formerly community colleges) and the State University System.

Department of Elderly Affairs (also, Elder Affairs) administers services to assist the elderly in maintaining independence and quality of life, and to support their families and caregivers. The department also develops policy recommendations for long-term care.

Department of Environmental Protection implements programs to protect against air and water pollution, ensure domestic water supplies, and coordinate the State's stormwater program. This department also oversees Florida's 160 State parks and other outdoor recreational facilities.

Department of Financial Services, under the Chief Financial Officer, administers the State treasury and oversees accounting and auditing of State agencies. It also administers the State's risk management and fire marshal offices, regulates insurance agents and investigates insurance fraud, and participates in administration of the workers compensation system. *The Financial Services Commission*, an independent agency housed within the Department but consisting of the Governor and Cabinet, regulates securities transactions, financial institutions and insurers operating in the State.

Department of Health oversees a State health plan, as well as a wide range of State and community efforts to prevent diseases and disabilities. The department monitors disease trends, provides health care and early intervention services, gives medical direction for child protection and sexual abuse treatment, promotes innovative and cost effective health care delivery systems, and serves as statewide repository of health data.

Department of Highway Safety and Motor Vehicles promotes safe driving through law enforcement, public education, titling and registering motor vehicles and vessels, licensing drivers, and regulating vehicle exhaust.

Department of Juvenile Justice coordinates the State's programs for juvenile offenders including prevention, diversion, residential and non-residential commitment, delinquency institutions, training, reentry and aftercare.

Department of Law Enforcement conducts criminal investigations, provides criminal analysis laboratories, offers criminal justice training, and compiles statistics and maintains records of criminal activities.

Department of Legal Affairs represents the State in civil lawsuits and in criminal appeals. It also issues formal advisory opinions and is the chief enforcement agency for antitrust, consumer protection, and civil racketeering laws.

Department of the Lottery manages Florida's state lottery as a self-supporting, revenue producing department designed to generate additional funding for public education.

Department of Management Services is responsible for various administrative functions of State government, including facilities management, information technology, administrative hearings, retirement, and state group insurance programs.

Department of Military Affairs implements the National Defense Act as it applies to Florida, and administers the Florida National Guard with the Governor as Commander in Chief.

Department of Revenue administers the collection, enforcement and auditing of taxes, manages tax information systems, provides taxpayer assistance, and administers the federal child support enforcement program in the State.

Department of State oversees the elections process, corporate records, Florida's international relations, cultural entities, libraries and historic preservation.

Department of Transportation is charged with providing a safe, interconnected statewide transportation system. Its responsibilities include planning and implementing transportation policies, designing and constructing facilities, and administering motor carrier compliance and toll operations.

Department of Veterans' Affairs assists military veterans and their dependents in securing benefits to which they are entitled under federal or State law by virtue of their military service.

The Public Employees Relations Commission is a neutral adjudicatory body which resolves public sector labor disputes, career service appeals, veteran's preference appeals, drug testing cases, certain age discrimination cases, and whistle blower appeals.

The Public Service Commission, an arm of the legislature, regulates the operation of electric utilities, telecommunications and telephone companies, and water or wastewater utilities within the State.

The State is divided into five *water management districts* to provide water resource planning and development.

In addition to statutorily created departments and commissions, there are several constitutional boards responsible for governmental functions.

A 17-member *Board of Governors* is responsible for managing the State University System. The Board consists of 14 members appointed by the governor, plus the commissioner of education, a faculty representative and a student representative.

Fish and Wildlife Conservation Commission, comprised of seven members appointed by the Governor, exercises the State's regulatory and executive powers with respect to wild animal life, fresh water aquatic life, and marine life.

Government Efficiency Task Force, comprised of members of the public and private sectors, develops recommendations to improve government operations and reduce costs, beginning in 2007 and each fourth year thereafter.

Florida Commission on Ethics enforces the State's code of ethics for public employees and officers not under the jurisdiction of the Judicial Qualification Commission.

Joint Legislative Budget Commission, composed of an equal number of members of the respective houses of the legislature, develops the State's long-range financial outlook and reviews certain proposed budget amendments.

Judicial Qualification Commission investigates and makes recommendations to the Supreme Court with respect to action against any justice or judge whose conduct may warrant disciplinary measures.

Parole Commission is made up of three members appointed by the Governor. It is responsible for determining which prisoners will be granted parole and the terms of conditional release, whether a person has violated parole, and for reporting on persons under consideration for clemency.

Taxation and Budget Reform Commission, established in 2007 and each 20th year thereafter to examine the State's budgetary process, revenue needs and tax policy, to determine funding methods favored by citizens, and to recommend changes.

State Board of Administration, comprised of the Governor, Attorney General and Chief Financial Officer, is the long-term investment body for the State. It also serves as fiscal agent or trustee with respect to bonds issued by the State or its agencies, and manages investment of Florida's retirement system monies.

State Board of Education is the chief policy making and coordinating body of public education and vocational rehabilitation in Florida. It consists of seven members appointed by the Governor.

DEMOGRAPHIC & ECONOMIC INFORMATION

Population

Florida ranks as the fourth most populous state, with a population of 18.80 million as of April 1, 2010. This represents a 0.61% increase from April 1, 2009.

While the State's population has grown by 17.6% between 2000 and 2010, annual population growth has slowed considerably in recent years. Florida's average annual population growth rate was 2.13% from 2000 to 2007, which exceeded the nation's average annual population growth rate of 0.95% over the same period. However, Florida's population growth has slowed recently, with the average annual growth rate decreasing to 0.64% between 2008 and 2010, compared to the relatively stable average annual growth rate for the US of .79% for the three year period. Typically there are two drivers of population growth – natural increases (births minus deaths) and net migration (people moving into the state minus people moving out of the State). Historically, Florida's population

growth has been driven by positive net migration, but the State has experienced record low levels of net migration in recent years, resulting in the slowed population growth.

The age distribution of Florida's population differs from that of the nation because Florida has a somewhat larger elderly population and a slightly smaller working age population than the nation. Florida's 2010 population aged 65 or older is 17.6% of the State's population and is projected to increase to 21.3% by 2020. Whereas the nation's population aged 65 or older is approximately 12.9% and is expected to increase to 16.0% by 2020. Florida's working age population (18-64) is currently 60.4% of total population and is expected to decline to 57.6% in 2020, and by comparison, the working age population (18-64) in the US is 62.7% of total population currently and projected to decline to 60.0%

Population Change Florida and U.S., 1980 - 2020 (April 1 census day figures)

| Year | Florida | | U. S. | |
|------------------|----------------|----------|----------------|----------|
| | (in thousands) | % change | (in thousands) | % change |
| 1980 | 9,747 | - | 226,546 | - |
| 1990 | 12,938 | 32.7% | 248,710 | 9.8% |
| 2000 | 15,983 | 23.5 | 281,422 | 13.2 |
| 2010 | 18,801 | 17.6 | 308,746 | 9.7 |
| 2020 (projected) | 21,327 | 13.4 | 341,387 | 10.6 |

Source: Office of Economic and Demographic Research, The Florida Legislature (July, 2011), and U.S. Census Bureau.

Florida Population Age Trends, 2000-2030

| Age | 2000 | | 2010 | | 2020 | | 2030 | |
|---------|------------------|------------|------------------|------------|------------------|------------|------------------|------------|
| | Population | % of total |
| 0-4 | 945,853 | 5.9% | 1,136,948 | 6.1% | 1,211,567 | 5.7% | 1,267,834 | 5.3% |
| 5 to 17 | 2,700,597 | 16.9% | 2,988,515 | 15.9% | 3,276,517 | 15.4% | 3,532,863 | 14.8% |
| 18-24 | 1,330,636 | 8.3% | 1,683,730 | 9.0% | 1,719,808 | 8.1% | 1,931,515 | 8.1% |
| 25-44 | 4,569,515 | 28.6% | 4,668,792 | 24.9% | 5,095,519 | 24.0% | 5,462,926 | 22.9% |
| 45-64 | 3,628,573 | 22.7% | 4,989,955 | 26.6% | 5,416,732 | 25.5% | 5,431,841 | 22.8% |
| 65+ | <u>2,807,650</u> | 17.6% | <u>3,305,416</u> | 17.6% | <u>4,526,783</u> | 21.3% | <u>6,194,272</u> | 26.0% |
| Total | 15,982,824 | | 18,773,356 | | 21,246,926 | | 23,821,251 | |

Source: Office of Economic and Demographic Research, The Florida Legislature. (Demographic Estimating Conference Database, August, 2010)

Florida's Gross Domestic Product

Florida's Gross Domestic Product ("GDP") represents the value of goods and services produced by the State, and serves as a broad measure of the State's economy. The State's GDP for 2010 is estimated at \$673 billion (in chained 2005 dollars), which is slightly higher than 2009 GDP of \$668 billion.

However, Florida's GDP decreased 4.7% from 2006 to 2010. Private industry accounted for 88% of the State's 2010 GDP and government accounted for the remaining 12%. Real estate was the largest single industry, accounting for 17.3% of Florida's 2010 GDP.

The following table compares the components of the State's GDP over the most recent five-year period available.

**Florida's Gross Domestic Product by Major Industry
2006 and 2010**

(millions of chained 2005 dollars)¹

| Industry | 2006 | % of Total | 2010 | % of Total |
|---|---------------|------------|---------------|------------|
| Agriculture, forestry, fishing and hunting | \$6,295 | 0.9% | \$4,971 | 0.7% |
| Mining | 967 | 0.1 | 779 | 0.1 |
| Utilities | 12,688 | 1.8 | 12,709 | 1.9 |
| Construction | 51,201 | 7.3 | 28,588 | 4.3 |
| Manufacturing | 37,702 | 5.3 | 36,102 | 5.4 |
| Wholesale trade | 46,188 | 6.5 | 48,007 | 7.1 |
| Retail trade | 57,203 | 8.1 | 53,801 | 8.0 |
| Transportation and warehousing, excluding Postal Services | 20,830 | 3.0 | 19,477 | 2.9 |
| Information | 30,696 | 4.3 | 33,124 | 4.9 |
| Finance and insurance | 49,388 | 7.0 | 52,265 | 7.8 |
| Real estate and rental and leasing | 119,209 | 16.9 | 116,344 | 17.3 |
| Professional and technical services | 49,564 | 7.0 | 44,120 | 6.6 |
| Management of companies and enterprises | 8,170 | 1.2 | 7,709 | 1.1 |
| Administrative and waste services | 29,931 | 4.2 | 24,748 | 3.7 |
| Educational services | 5,156 | 0.7 | 5,592 | 0.8 |
| Health care and social assistance | 49,157 | 7.0 | 53,430 | 7.9 |
| Arts, entertainment and recreation | 11,086 | 1.6 | 11,618 | 1.7 |
| Accommodation and food services | 28,640 | 4.1 | 25,399 | 3.8 |
| Other services, except government | 18,996 | 2.7 | 16,658 | 2.5 |
| Government | <u>73,661</u> | 10.4 | <u>80,452</u> | 12.0 |
| Total ² | \$706,600 | | \$673,375 | |

Source: U.S. Department of Commerce, Bureau of Economic Analysis, (July 2011).

¹ A measure of real output and prices using 2005 as the base year and applying annual - weighted indexes to allow for changes in relative prices and associated purchasing patterns over time, as developed by the Bureau of Economic Analysis.

² May not add, due to chaining formula and rounding.

Tourism is not treated as a separate industry sector, but remains an important aspect of the Florida economy. Its financial impact is reflected in a broad range of market sectors, such as transportation, communications, retail trade and services, and in State tax revenues generated by business activities which cater to visitors, such as hotels, restaurants, admissions and gift shops. According to *Visit Florida*, the direct support organization for the Florida Commission on Tourism, approximately 82.3 million people visited the State in 2010, a 1.7% increase over the final 2009 total. Leisure and hospitality services accounted for 12.8% of the State's non-farm employment in 2010. According to the Florida Department of Business and Professional Regulation, as of July 1, 2010, 45,327 food service establishments were licensed with seating capacity of 3,636,782, and 37,273 lodging establishments were licensed with 1,523,290 total units. According to the Florida Department of Environmental Protection, visitors to the State's public parks and recreation areas totaled 20,110,021 for Fiscal Year 2009-10, a 6.3% decrease from the prior year. In 2010, accommodation and food services contributed 3.8% of the State's GDP, and arts, entertainment and recreation contributed 1.7%.

Transportation of goods and passengers is facilitated by Florida's integrated transportation system. The State has approximately 122,000 miles of roads, 15 freight railroads with 2,796

miles of track, and AMTRAK passenger train service. There are 29 fixed route transit systems. There are 800 aviation facilities, of which 131 are available for public use; 20 provide scheduled commercial service and 14 provide international service. According to Federal Aviation Administration figures, in 2010 eight Florida airports were among the top 100 in the U.S. based on passenger boardings and six were among the top 100 based on cargo weight. In that year, Miami International Airport ranked 12th in North America in passenger traffic and ranked 4th in North America in cargo volume, according to the Airports Council International. Florida also has 14 deep water ports, 9 major shallow water ports, and 4 significant river ports, many of which are interconnected by the State's inland waterway system.

In 2010, agriculture, forestry and fishing constituted only about 0.7% of GDP. According to the U.S. Department of Agriculture, in 2009 Florida's agricultural cash receipts were 13th for all crops, with the State ranking first in oranges, and 2nd in greenhouses, tomatoes and strawberries.

Construction activity, which constituted approximately 4.25% of Florida's 2010 GDP, is another factor to consider in analyzing the State's economy. The following table shows housing starts and construction values from 1999 through 2009.

Florida Housing Starts and Construction Value: 1999-2009

| Year | Housing Starts (thous) | | Construction Value (millions of current dollars) | | | | | | |
|-------------------|------------------------|--------------|--|--------------|---------------|-----------|-----------|-----------|------------|
| | Single Family | Multi-Family | Private Residential | | | Public | | | |
| | | | Single Family | Multi-Family | Other Private | Education | Highways | Other | Total |
| 1999 | 99.1 | 68.0 | \$12,531.5 | \$4,377.6 | \$8,986.5 | \$1,337.8 | \$1,673.3 | \$3,361.0 | \$32,267.7 |
| 2000 | 97.6 | 63.1 | 13,917.8 | 4,848.6 | 9,605.2 | 1,790.0 | 1,873.5 | 3,960.9 | 35,995.9 |
| 2001 | 107.3 | 60.7 | 16,182.7 | 5,318.5 | 9,468.7 | 1,673.5 | 2,363.2 | 4,096.7 | 39,103.3 |
| 2002 | 122.4 | 63.4 | 19,613.8 | 5,585.3 | 8,984.9 | 1,933.8 | 2,793.7 | 5,331.8 | 44,243.4 |
| 2003 | 146.5 | 68.7 | 24,818.0 | 6,690.5 | 8,323.9 | 1,625.9 | 2,682.9 | 5,050.0 | 49,191.3 |
| 2004 | 172.3 | 80.2 | 31,581.4 | 8,927.0 | 9,888.2 | 1,799.8 | 2,727.2 | 4,458.8 | 59,382.5 |
| 2005 | 193.1 | 90.5 | 38,569.2 | 11,633.2 | 9,284.8 | 2,027.9 | 3,216.1 | 4,105.0 | 68,846.3 |
| 2006 | 132.6 | 85.8 | 32,409.0 | 14,044.8 | 10,658.7 | 2,294.9 | 3,030.1 | 5,007.1 | 67,444.5 |
| 2007 | 63.8 | 57.5 | 16,468.1 | 11,040.3 | 13,137.2 | 3,168.7 | 3,643.8 | 7,013.7 | 54,471.8 |
| 2008 | 34.3 | 24.9 | 9,688.5 | 5,465.7 | 12,532.4 | 2,817.2 | 3,393.5 | 6,686.1 | 40,583.5 |
| 2009 ¹ | 18.1 | 15.2 | 4,915.8 | 2,539.0 | 9,698.3 | 2,493.6 | 2,685.9 | 7,245.1 | 29,577.5 |

Source: F.W. Dodge Statistical Service; Office of Economic and Demographic Research, The Florida Legislature, March, 2009.

Note: Private residential construction includes all residential buildings owned by the private sector. Other private construction includes all non-residential construction owned by the private sector and is made up of manufacturing and non-manufacturing. Public construction includes all projects owned by a governmental entity.

¹ Forecast for 2009 is from the March 2009 Florida Economic Estimating Conference.

(Remainder of page intentionally left blank)

Employment

The following tables provide employment information for Florida and the U.S. As shown below, despite a slight increase in total employment in Florida from 8.14 million in 2009-10 to 8.17 million in 2010-11, the unemployment rate increased from 11.1% in 2009-10 to 11.9% in 2010-11 because the size of the labor force also increased. Fiscal Year 2010-11 is the third year that Florida's unemployment rate has been higher than the nation's unemployment rate in the past ten years.

The total number of non-agricultural jobs in Florida has decreased over the past five years by 8.0% from 7.8 million in 2005 to 7.2 million in 2010. Total non-agricultural jobs decreased from 7.3 million in 2009 to 7.2 million in 2010. The only industries that saw an increase in the number of jobs between 2009 and 2010 were Retail Trade, Education and Health Services, and Leisure and Hospitality Services.

Unemployment Rate, Florida vs. U.S. Fiscal Years 2001-2011

| Fiscal Year | Total Civilian Labor Force (in thousands) | | Total Employment (in thousands) | | Annual Average Unemployment Rate (percent) | |
|----------------|--|------------|------------------------------------|------------|--|------|
| | Florida | U.S. | Florida | U.S. | Florida | U.S. |
| | 2000-01 | 7,920.3 | 143,200.0* | 7,606.9 | 137,300.0* | 4.0% |
| 2001-02 | 8,071.4 | 144,400.0* | 7,635.9 | 136,400.0* | 5.4 | 5.5 |
| 2002-03 | 8,132.5 | 145,900.0* | 7,687.7 | 137,100.0* | 5.5 | 6.0 |
| 2003-04 | 8,337.4 | 146,800.0* | 7,924.5 | 138,300.0* | 5.0 | 5.8 |
| 2004-05 | 8,572.4 | 148,200.0* | 8,203.1 | 140,400.0* | 4.3 | 5.3 |
| 2005-06 | 8,806.6 | 150,400.0* | 8,499.6 | 143,100.0* | 3.5 | 4.8 |
| 2006-07 | 9,055.5 | 152,500.0* | 8,727.1 | 145,500.0* | 3.6 | 4.5 |
| 2007-08 | 9,220.9 | 153,700.0* | 8,790.2 | 146,100.0* | 4.7 | 4.9 |
| 2008-09 | 9,265.0 | 154,600.0* | 8,494.4 | 142,900.0* | 8.3 | 7.6 |
| 2009-10 | 9,159.3 | 153,900.0* | 8,144.1 | 138,900.0* | 11.1 | 9.8 |
| 2010-11 | 9,274.3 | 153,800.0* | 8,166.3 | 139,300.0 | 11.9 | 9.4 |

Source: Florida Office of Economic and Demographic Research, February, 2011 National Economic Estimating Conference and the February, 2011 Florida Economic Estimating Conference.

* Rounded.

Composition of Nonagricultural Employment Florida and the Nation 2005 and 2010¹ (thousands)

| | 2005 | | | | 2010 | | | |
|----------------------------------|----------------|---------------|-----------------|---------------|----------------|---------------|-----------------|---------------|
| | Florida | | United States | | Florida | | United States | |
| | # of Jobs | % of Total | # of Jobs | % of Total | # of Jobs | % of Total | # of Jobs | % of Total |
| Natural Resources & Mining | 7.1 | 0.1 | 628.0 | 0.5 | 5.4 | 0.1 | 705.0 | 0.5 |
| Construction | 633.2 | 8.1 | 7,336.0 | 5.5 | 345.6 | 4.8 | 5,526.0 | 4.3 |
| Manufacturing | 415.5 | 5.3 | 14,226.0 | 10.6 | 306.9 | 4.3 | 11,524.0 | 8.9 |
| Transportation & Warehousing | 223.1 | 2.9 | 4,360.9 | 3.3 | 201.8 | 2.8 | 4,183.5 | 3.2 |
| Utilities | 24.2 | 0.3 | 554.0 | 0.4 | 22.6 | 0.3 | 551.9 | 0.4 |
| Wholesale Trade | 341.4 | 4.4 | 5,764.4 | 4.3 | 307.3 | 4.3 | 5,456.0 | 4.2 |
| Retail Trade | 993.5 | 12.7 | 15,279.6 | 11.4 | 923.0 | 12.9 | 14,413.9 | 11.1 |
| Information | 163.2 | 2.1 | 3,061.0 | 2.3 | 135.4 | 1.9 | 2,711.0 | 2.1 |
| Financial Activities | 535.8 | 6.9 | 8,153.0 | 6.1 | 469.7 | 6.5 | 7,630.0 | 5.9 |
| Professional & Business Services | 1,138.5 | 14.6 | 16,954.0 | 12.7 | 1,035.5 | 14.4 | 16,688.0 | 12.9 |
| Education & Health Services | 969.1 | 12.4 | 17,372.0 | 13.0 | 1,079.0 | 15.0 | 19,564.0 | 15.1 |
| Leisure & Hospitality Services | 939.5 | 12.0 | 12,816.0 | 9.6 | 917.7 | 12.8 | 13,020.0 | 10.0 |
| Other Services | 334.9 | 4.3 | 5,395.0 | 4.0 | 310.8 | 4.3 | 5,364.0 | 4.1 |
| Government | <u>1,081.2</u> | 13.9 | <u>21,804.0</u> | 16.3 | <u>1,114.5</u> | 15.5 | <u>22,482.0</u> | 17.3 |
| Total Non-farm | 7,799.9 | | 133,703.0 | | 7,174.9 | | 129,818.0 | |

Source: US Department of Labor, Bureau of Labor Statistics. (August 2011)

¹ Not Seasonally adjusted.

Income

Historically, Florida's total personal income has grown at rates similar to those of the U.S. and the other southeastern states. From 2000 to 2008, Florida's total personal income grew by 58.5% and per capita income expanded approximately 34.3%. For the nation, total and per capita personal income increased by 44.7% and 32.5%, respectively, over the same time period. Between 2008 and 2009, total personal income decreased in Florida (2.3%), the Southeast (1.2%), and the nation (1.7%), and per capita personal income decreased in Florida (3.3%), the southeast (2.0%), and the nation (2.6%). Total personal income increased in 2010 in Florida

(2.2%), the Southeast (3.0%), and the nation (3.0%), and per capita personal income increased in 2010 in Florida (3.9%), the Southeast (3.9%) and the nation (3.7%). Florida per capita income remains above the Southeast region, but below the nation.

Because Florida has an older and proportionally larger retirement population than most states, property income (dividends, interest, and rent) and transfer payments (social security, retirement, disability, unemployment insurance, workers' compensation and veterans benefits) are major sources of income.

Total and Per Capita Personal Income U.S., Florida and Southeast

| Year | Total Personal Income (In millions of Current Dollars) | | | | | | Per Capita Personal Income (In Current Dollars) | | | | | |
|------|---|-------------|-----------|-------------|---------|-------------|--|-------------|--------|-------------|---------|-------------|
| | U.S. | % Change | S.E. | % Change | Florida | % Change | U.S. | % Change | S.E. | % Change | Florida | % Change |
| 2000 | 8,554,866 | 9.7 | 1,879,680 | 9.5 | 466,644 | 10.1 | 30,318 | 8.5 | 27,049 | 8.1 | 29,080 | 8.1 |
| 2001 | 8,878,830 | 3.8 | 1,968,292 | 4.7 | 487,499 | 4.5 | 31,145 | 2.7 | 27,984 | 3.5 | 29,810 | 2.5 |
| 2002 | 9,054,702 | 2.0 | 2,025,058 | 2.9 | 508,400 | 4.3 | 31,462 | 1.0 | 28,453 | 1.7 | 30,479 | 2.2 |
| 2003 | 9,369,072 | 3.5 | 2,103,566 | 3.9 | 531,218 | 4.5 | 32,271 | 2.6 | 29,218 | 2.7 | 31,283 | 2.6 |
| 2004 | 9,928,790 | 6.0 | 2,249,054 | 6.9 | 582,766 | 9.7 | 33,881 | 5.0 | 30,804 | 5.4 | 33,540 | 7.2 |
| 2005 | 10,476,669 | 5.5 | 2,403,753 | 6.9 | 633,193 | 8.7 | 35,424 | 4.6 | 32,442 | 5.3 | 35,605 | 6.2 |
| 2006 | 11,256,516 | 7.4 | 2,580,723 | 7.4 | 690,268 | 9.0 | 37,698 | 6.4 | 34,426 | 6.1 | 38,161 | 7.2 |
| 2007 | 11,900,562 | 5.7 | 2,728,855 | 5.7 | 721,052 | 4.5 | 39,932 | 5.9 | 35,695 | 3.7 | 39,036 | 2.3 |
| 2008 | 12,380,225 | 4.0 | 2,836,634 | 3.9 | 739,403 | 2.5 | 40,166 | 0.6 | 36,196 | 1.4 | 39,064 | 0.1 |
| 2009 | 12,168,161 | (1.7) | 2,803,393 | (1.2) | 722,328 | (2.3) | 39,138 | (2.6) | 35,458 | (2.0) | 37,780 | (3.3) |
| 2010 | 12,530,101 | 3.0 | 2,888,554 | 3.0 | 738,373 | 2.2 | 40,584 | 3.7 | 36,851 | 3.9 | 39,272 | 3.9 |

Source: U.S. Department of Commerce, Bureau of Economic Analysis (August, 2011).

(Remainder of page intentionally left blank)

Florida Personal Income and Earnings by Major Source: 2005 vs. 2010

(thousands of current dollars)

| | <u>2005</u> | <u>% Total</u> | <u>2010</u> | <u>% Total</u> |
|--|--------------------------|-------------------|--------------------------|-------------------|
| Earnings: | | | | |
| Wages and Salaries: | | | | |
| Farm | \$2,701,312 | 0.4% | \$2,040,710 | 0.2% |
| Non Farm | 420,630,558 | 56.4% | 441,505,560 | 51.6% |
| Private: | | | | |
| Forestry, fishing and other | 1,372,488 | 0.2% | 1,468,853 | 0.2% |
| Mining | 549,382 | 0.1% | 669,253 | 0.1% |
| Utilities | 2,399,585 | 0.3% | 2,852,570 | 0.3% |
| Construction | 37,096,584 | 5.0% | 23,884,490 | 2.8% |
| Manufacturing | 23,989,408 | 3.2% | 22,735,357 | 2.7% |
| Wholesale Trade | 23,486,555 | 3.1% | 24,956,657 | 2.9% |
| Retail Trade | 34,853,115 | 4.7% | 34,120,995 | 4.0% |
| Transportation & Warehousing | 13,357,378 | 1.8% | 14,141,995 | 1.7% |
| Information | 13,116,101 | 1.8% | 13,399,366 | 1.6% |
| Finance and insurance | 28,833,169 | 3.9% | 27,587,173 | 3.2% |
| Real estate and rental and leasing | 13,277,656 | 1.8% | 9,935,132 | 1.2% |
| Professional and technical services | 34,359,685 | 4.6% | 40,802,290 | 4.8% |
| Management of companies and enterprises | 7,028,033 | 0.9% | 8,250,526 | 1.0% |
| Administrative and waste services | 27,603,798 | 3.7% | 24,071,313 | 2.8% |
| Educational services | 4,615,606 | 0.6% | 6,710,746 | 0.8% |
| Health care and social assistance | 43,986,961 | 5.9% | 57,490,482 | 6.7% |
| Arts, entertainment and recreation | 8,104,581 | 1.1% | 9,685,370 | 1.1% |
| Accommodation and food services | 17,982,564 | 2.4% | 19,790,895 | 2.3% |
| Other services, except public administration | <u>17,692,038</u> | 2.4% | <u>18,842,305</u> | 2.2% |
| Total Private | 353,704,687 | 47.4% | 361,395,768 | 42.3% |
| Government & government enterprises | 66,925,371 | 9.0% | 80,109,792 | 9.4% |
| Total Wages & Salaries | 423,331,370 | 56.7% | 443,546,270 | 51.9% |
| Other Income: | | | | |
| plus: Dividends, Interest & Rent | 156,369,174 | 21.0% | 194,159,299 | 22.7% |
| plus: Personal current transfer receipts | 98,055,222 | 13.1% | 149,265,512 | 17.5% |
| plus: Adjustment for residence | 1,635,830 | 0.2% | 1,906,330 | 0.2% |
| Less: Contributions for social insurance | <u>(46,199,421)</u> | <u>(6.2)%</u> | <u>(50,504,420)</u> | <u>(5.9)%</u> |
| Total Other Income: | 209,860,805 | 28.1% | 294,826,721 | 34.5% |
| Total Personal Income | 633,192,175 | 84.9% | 738,372,991 | 86.3% |
| Other Earnings: | | | | |
| Supplements to wages and salaries | 69,515,129 | 9.3% | 75,691,703 | 8.9% |
| Proprietors' income: | <u>43,473,268</u> | 5.8% | <u>41,129,781</u> | 4.8% |
| Total Earnings: | 112,988,397 | 15.1% | 116,821,484 | 13.7% |
| TOTAL INCOME | \$746,180,572 | 100.0% | \$855,194,475 | 100.0% |

Source: US Department of Commerce, Bureau of Economic Analysis (August, 2011).

International Trade

Florida's location lends itself to international trade and travel. Florida was the 4th largest exporter in the nation in 2010, accounting for 4.3% of total U.S. exports of goods. The State's international merchandise trade (imports and exports) totaled \$126.2 billion in 2010, an increase of nearly 23% over 2009. The State's merchandise exports increased by 22.0% between 2009 and 2010, and imports increased by 23%. During the same period, the nation's exports increased by 19.0% and imports increased by 22.0%.

The State's top five exports for 2010 were vehicles, aircraft, precious metals, telecommunications equipment, and computers. The top imports were oil, vehicles, gold, refined copper and alloys, and telecommunications equipment. Florida's top trading partners for 2010 were Brazil, Colombia, China, Japan and Switzerland.

(Source: Enterprise Florida, March 2011)

Florida's International Trade: 2000-2010 (millions of U.S. dollars)

| Year | Exports | % Change | Imports | % Change |
|------|----------|----------|----------|----------|
| 2000 | \$35,851 | 5.0 | \$37,901 | 7.0 |
| 2001 | 34,530 | (3.7) | 36,430 | (3.9) |
| 2002 | 32,241 | (6.6) | 36,955 | 1.4 |
| 2003 | 32,404 | 0.5 | 40,462 | 9.5 |
| 2004 | 37,501 | 15.7 | 43,896 | 8.5 |
| 2005 | 44,115 | 17.6 | 51,169 | 16.6 |
| 2006 | 51,767 | 17.3 | 57,399 | 12.2 |
| 2007 | 58,915 | 13.8 | 55,925 | (2.6) |
| 2008 | 73,022 | 23.9 | 57,525 | 2.9 |
| 2009 | 59,884 | (18.0) | 43,107 | (25.1) |
| 2010 | 73,064 | 22.0 | 53,164 | 23.3 |

Source: Enterprise Florida. (March 2011)

Primary Sources of Sales Tax

Understanding the types of transactions and businesses which generate most of the State's primary tax revenue is also relevant to an assessment of economic activity within the State. The following tables illustrate taxable sales by category of

expenditure over the past ten years, and compare the top twenty-five types of businesses generating sales tax revenues in Fiscal Year 2005 and 2010.

Florida Taxable Sales and Sales Tax Liability by Category Fiscal Years ended June 30, 2000-2010 (Millions of current dollars)

| Year | Consumer Non-durables | | | | Consumer Durables | | | | Building | | Business | |
|-------------------|-----------------------|---------|--------|---------|---------------------|---------|--------|---------|------------|---------|------------|---------|
| | Recreation/Tourism | | Other | | Autos & Accessories | | Other | | Investment | | Investment | |
| | Sales | Taxes | Sales | Taxes | Sales | Taxes | Sales | Taxes | Sales | Taxes | Sales | Taxes |
| 2000 | 48,675 | 2,910.6 | 73,384 | 4,515.3 | 46,466 | 2,778.5 | 20,384 | 1,218.9 | 15,490 | 926.2 | 44,372 | 2,599.7 |
| 2001 ¹ | 51,012 | 3,050.3 | 78,816 | 4,853.9 | 48,336 | 2,890.3 | 21,243 | 1,270.2 | 16,082 | 961.7 | 45,927 | 2,690.8 |
| 2002 | 49,685 | 2,971.0 | 72,898 | 4,434.7 | 52,150 | 3,118.4 | 20,681 | 1,236.7 | 15,924 | 952.2 | 47,119 | 2,760.6 |
| 2003 | 50,100 | 2,995.8 | 70,959 | 4,287.3 | 52,410 | 3,133.9 | 20,834 | 1,245.8 | 17,541 | 1,048.9 | 48,181 | 2,822.9 |
| 2004 | 53,924 | 3,224.5 | 77,387 | 4,675.7 | 56,017 | 3,349.6 | 23,003 | 1,375.5 | 18,455 | 1,103.5 | 55,027 | 3,223.9 |
| 2005 | 58,821 | 3,517.3 | 84,393 | 5,099.0 | 60,332 | 3,607.6 | 25,735 | 1,538.9 | 22,868 | 1,367.4 | 63,723 | 3,733.4 |
| 2006 | 63,247 | 3,781.9 | 92,961 | 5,616.7 | 64,883 | 3,879.9 | 28,704 | 1,716.4 | 26,525 | 1,586.1 | 71,783 | 4,205.0 |
| 2007 | 65,019 | 3,887.9 | 97,809 | 5,909.6 | 62,511 | 3,737.9 | 27,831 | 1,664.2 | 23,745 | 1,419.8 | 72,464 | 4,245.5 |
| 2008 | 65,772 | 3,932.9 | 98,075 | 5,925.7 | 54,885 | 3,281.9 | 24,363 | 1,456.8 | 20,319 | 1,215.0 | 66,612 | 3,902.7 |
| 2009 | 61,767 | 3,693.4 | 92,760 | 5,604.6 | 43,547 | 2,603.9 | 19,938 | 1,192.2 | 16,362 | 978.4 | 59,961 | 3,513.0 |
| 2010 | 60,407 | 3,610.5 | 91,404 | 5,515.3 | 43,641 | 2,608.7 | 18,299 | 1,094.1 | 14,845 | 888.2 | 55,154 | 3,233.9 |

¹ Beginning in October 2001, telecommunications services became taxable under Communications Services Tax (CST). Prior to the implementation of the CST, these sales were included in the "Other Consumer Nondurables" category.

Source: Office of Economic and Demographic Research, (January 2011).

**State Sales Tax Collections by Top 25 Business Types
Fiscal Years Ended June 30, 2005 vs. 2010 ¹**

| <u>Type of Business</u> | <u>2005</u> | <u>2010</u> |
|--|-----------------|-----------------|
| General Miscellaneous Merchandise Stores | \$2,322,564,626 | \$2,464,695,345 |
| Automotive Dealers | 3,072,337,516 | 2,066,873,420 |
| Restaurants, Lunchrooms, Catering Services | 1,534,497,577 | 1,668,673,218 |
| Leased or Rental of Commercial Real Property | 1,112,612,412 | 1,309,212,726 |
| Food & Beverage Stores | 815,978,980 | 893,574,821 |
| Hotels/Motels Accommodations & Other Lodging Places | 858,308,552 | 840,588,507 |
| Lumber and Other Building Materials Dealers | 1,003,236,605 | 646,478,894 |
| Apparel & Accessory Stores | 524,517,140 | 641,956,932 |
| Admissions, Amusement & Recreation Services | 417,545,288 | 573,831,733 |
| Utilities, Electric, Gas, Water, Sewer | 395,819,674 | 515,976,710 |
| Radio, Television, Consumer Electronics, Computers, Music Stores | 544,000,014 | 460,986,047 |
| Wholesale Dealers | 611,793,333 | 448,635,288 |
| Manufacturing | 570,753,063 | 403,461,692 |
| Home Furniture, Furnishings & Equipment | 453,870,612 | 319,369,469 |
| Rental of Tangible Personal Property | 413,800,139 | 255,205,409 |
| Automobile Repair & Services | 246,467,087 | 229,876,444 |
| Automotive Accessories & Parts | 224,058,170 | 220,338,848 |
| Taxable Services (per Chapter 212, F.S.) | 138,870,286 | 149,077,641 |
| Store & Office Equipment, Office Supplies | 196,405,537 | 142,175,426 |
| Drinking Places (Alcoholic beverages served on premises) | 154,211,305 | 140,320,492 |
| Communications ² | 140,687,677 | 134,971,720 |
| Paint, Wallpaper & Hardware Dealers | 178,612,232 | 121,771,535 |
| Insurance, Banking Savings & Loans | 33,876,593 | 117,478,005 |
| Gifts, Cards, Novelty, Hobby, Crafts & Toy Stores | 128,197,055 | 110,749,162 |
| Household Appliances & Accessories | 206,021,862 | 100,462,651 |

Source: Florida Department of Revenue, Office of Tax Research (September 2010).

¹ Arranged in descending order of collection amounts for Fiscal Year ended June 30, 2010. In that Fiscal Year, "Miscellaneous" and unspecified business types accounted for \$147,985,780 in sales tax collections.

² Includes sales and use tax portion of Communications Service Tax.

STATE FINANCIAL OPERATIONS

Florida law requires that financial operations of the State be maintained through the General Revenue Fund, trust funds, and the Budget Stabilization Fund administered by the Chief Financial Officer. The majority of State tax revenues are deposited in the General Revenue Fund. Trust funds consist of monies which under law or trust agreement are segregated for a specified purpose. State monies are disbursed by the Chief Financial Officer upon warrants or other orders pursuant to appropriations acts. The Governor and Chief Financial Officer are responsible for insuring that sufficient revenues are collected to meet appropriations and that no deficits occur in State funds.

The State Constitution mandates the creation and maintenance of a Budget Stabilization Fund, in an amount not less than 5% nor more than 10% of the last complete fiscal year's net revenue collections for the General Revenue Fund. Monies in the Budget Stabilization Fund may be transferred to the General Revenue Fund to offset a deficit therein or to provide emergency funding, including payment of up to \$38 million with respect to certain uninsured losses to state property. Monies in this fund are constitutionally prohibited from being obligated or otherwise committed for any other purpose. Any withdrawals from the Budget Stabilization Fund must be restored from general revenues in five equal annual installments, commencing in the third fiscal year after the expenditure, unless the legislature establishes a different restoration schedule.

The State budget must be kept in balance from current revenues each State fiscal year (July 1-June 30), and the State may

not borrow to fund governmental operations. (See "**Budget Shortfalls**" below.) Revenues in the General Revenue Fund which exceed amounts needed to fund appropriations or for transfers to the Budget Stabilization Fund are maintained as "unallocated general revenues."

Budgetary Process

The State's budgetary process is an integrated, continuous system of planning, evaluation and controls. State law requires that, no later than each September 15, the Joint Legislative Budget Commission prepare a long-range State financial outlook. The outlook includes major workloads and revenue estimates and recommends fiscal strategies to assist the legislature in making budget decisions. State agencies are also required to develop goals and objectives consistent with the State long-range planning document.

Individual State agencies prepare and submit appropriation requests to the Office of Planning and Budgeting, Executive Office of the Governor, generally no later than October 15 of the year preceding legislative consideration. The Office of Planning and Budgeting conducts a detailed evaluation of all agency requests, after which it makes budget recommendations to the Governor.

From recommended appropriations and revenue estimates, the Governor submits a recommended budget to the legislature. After passage of the appropriations bill, the Governor may exercise line item vetoes or veto the entire bill.

Revenue Estimates

State law provides for consensus estimating conferences to develop a variety of official economic and demographic information for use in planning and budgeting. Each conference develops information within its area of expertise by unanimous consent of the conference principals. Once an estimating conference is convened, an official estimate does not exist until a new consensus is reached.

Consensus revenue estimating conferences are generally held three times each year to estimate revenue collections for the next fiscal year based on current tax laws and administrative procedures. General State and national economic scenarios are agreed upon by the conference principals; the revenue estimates are then derived with the assistance of a custom-designed State econometric computer model. Consensus estimating conferences are held in late summer to refresh estimates for the Long Range Financial Outlook (Article III, Section 19(c)1, Florida Constitution), in late autumn to establish a forecast for the Governor's budget recommendations, and in the spring to determine the revenues available for appropriation during the legislative session. Conferences may reconvene at any time if it is felt that prior recommendations are no longer valid. Meetings are also held from time to time to determine fiscal impact of possible tax law changes, and after each legislative session to review changes in tax legislation and to amend official conference recommendations accordingly.

State Revenue Limitation

Present Law

The rate of growth in State revenues in a given fiscal year is limited to no more than the average annual growth rate in personal income over the previous five years. Revenues have never exceeded the limitation. Revenues collected in excess of the limitation are to be deposited into the Budget Stabilization Fund unless two-thirds of the members of both houses of the legislature vote to raise the limit. The revenue limit is determined by multiplying the average annual growth rate in personal income over the previous five years by the maximum amount of revenue permitted under the cap for the previous year. State revenues include taxes, licenses, fees, and charges for services imposed by the legislature on individuals, businesses, or agencies outside of State government as well as proceeds from the sale of lottery tickets. State revenues subject to the limitation do not include lottery receipts returned as prizes; balances carried forward from prior years; proceeds from the sale of goods (e.g. land, buildings); funds pledged for debt service on State bonds; State funds used to match federal money for Medicaid (partially exempt); charges imposed on the local governmental level; receipts of the Hurricane Catastrophe Trust Fund; and revenues required to be imposed by amendment to the Constitution after July 1, 1994. The revenue limitation may be adjusted to reflect the transfer of responsibility for funding governmental functions between the State and other levels of government.

Proposed Constitutional Amendment

The 2011 Florida Legislature adopted Senate Joint Resolution 958 (SJR 958), which will take effect upon approval by at least 60% of the electors and, if approved, will replace the current State revenue limitation beginning with the 2014-2015 State fiscal year. SJR 958 amends the Florida Constitution by striking the existing revenue limitation and adding a new Section 19 to Article VII of the Florida Constitution. Under SJR 958, **the rate of growth in State revenues in a given fiscal year is limited to no more than the average growth rate in inflation and population changes over the previous five years.** Revenues collected in excess of the limitation

are to be deposited into the Budget Stabilization Fund, until the balance in the Budget Stabilization Fund reaches an amount equal to 10% of the last completed fiscal year's net revenue collections for the general revenue fund, and thereafter shall be used for the support and maintenance of public schools by reducing the minimum financial effort required from school districts for participation in a state-funded education finance program, or, if the minimum financial effort is no longer required, returned to taxpayers as provided by general law. The revenue limit is determined by multiplying (1) the maximum amount of revenue permitted under the cap for the previous year, by (2) the adjustment for growth, which, beginning in Fiscal Year 2018-19, is an amount equal to the average for the previous five years of the product of (a) an amount equal to one plus the percent change in the calendar year annual average of the Consumer Price Index, and (b) an amount equal to one plus the percent change in the population of the State as of April 1 compared to April 1 of the prior year. The adjustment for growth is increased by four one-hundredths in Fiscal Year 2014-15, by three one-hundredths in Fiscal Year 2015-16, by two one-hundredths in Fiscal Year 2016-17, and by one one-hundredth in Fiscal Year 2017-18. State revenues include taxes, fees, licenses, fines, and charges for services imposed by the legislature on individuals, businesses, or agencies outside state government as well as proceeds from the sale of lottery tickets. State revenues subject to the limitation do not include revenues that are necessary to meet the requirements set forth in documents authorizing the issuance of bonds by the state for bonds issued before July 1, 2012; revenues that are used to provide matching funds for the federal Medicaid program with the exception of the revenues used to support the Public Medical Assistance Trust Fund or its successor program and with the exception of state matching funds used to fund optional expansions made after July 1, 1994; proceeds from the state lottery returned as prizes; receipts of the Florida Hurricane Catastrophe Fund and Citizens Property Insurance Corporation; receipts of public universities and colleges; balances carried forward from prior fiscal years; taxes, fees, licenses, fines, and charges for services imposed by local, regional, or school district governing bodies; or revenue from taxes, fees, licenses, fines, and charges for services authorized by any amendment or revision to this constitution after May 6, 2011. The revenue limitation may be adjusted to reflect the transfer of responsibility for funding governmental functions between the State and other levels of government occurring after May 6, 2011, or the fiscal impact of a new federal mandate.

The State revenue limitation for any fiscal year may be increased by a two-thirds vote of the membership of each house of the legislature. Unless otherwise provided by the bill increasing the revenue limitation, the increased revenue limitation enacted thereby shall be used to determine the revenue limitation for future fiscal years. The state revenue limitation for any one fiscal year may be increased by a three-fifths vote of the membership of each house of the legislature. In this circumstance, increases to the revenue limitation enacted must be disregarded when determining the revenue limitation in subsequent fiscal years.

Financial Control

After the appropriations bill becomes law, **the Office of Planning and Budgeting prepares monthly status reports comparing actual revenue receipts to the estimates on which appropriations were based.** This constant cash flow monitoring system enables the Governor and the Chief Financial Officer to insure that revenues collected will be sufficient to meet appropriations.

All balances of General Revenue Fund appropriations for operations in each fiscal year (except appropriations for fixed capital

outlay) expire on the last day of such fiscal year. Amounts identified by agencies as incurred obligations which have not been disbursed as of June 30 are carried forward, with unused amounts expiring on September 30. Because capital projects are often funded on a multi-year basis, with the full appropriation being made in the first year even though payments are actually made over multiple years, unused appropriations for fixed capital outlay revert on February 1 of the second fiscal year (the third fiscal year if for an educational facility or a construction project of a State university).

Budget Shortfalls

Appropriations are maximum amounts available for expenditure in the current fiscal year and are contingent upon the collection of sufficient revenues. The Governor and the Chief Financial Officer are responsible for ensuring that revenues collected will be sufficient to meet appropriations and that no deficit occurs in any state fund. A determination that a deficit has occurred or will occur can be made by either the Governor or the Chief Financial Officer after consultation with the revenue estimating conference. If the Governor fails to certify a deficit, the Speaker of the House of Representatives and President of the Senate may do so after consultation with the revenue estimating conference. A determination made by the Chief Financial Officer is reported to the Governor, the Speaker of the House and the President of the Senate, and subsequently to the Legislative Budget Commission for further action, if neither the Governor nor the House Speaker and Senate President certifies the existence of a deficit within 10 days after the report by the Chief Financial Officer. Within 30 days after determining that a budget shortfall will occur, the Governor is required to develop a plan of action to eliminate the budget shortfall for the executive branch and the Chief Justice of the Supreme Court is required to develop a plan of action for the judicial branch.

Budget shortfalls of less than 1.5% of the money appropriated from the General Revenue Fund during a fiscal year are resolved by the Governor for the executive branch and by the Chief Justice of the Supreme Court for the judicial branch, with the approval of the Legislative Budget Commission, subject to statutory guidelines and directives contained in the appropriations act. The statutory guidelines include a requirement that all branches of government are generally required to accept a proportional budget reduction. The Governor for the executive branch and the Chief Justice for the

judicial branch may reduce appropriations by placing them in mandatory reserve, or withhold appropriations by placing them in budget reserve, in order to prevent deficits or implement legislative directives in the General Appropriations Act.

If the revenue estimating conference projects a shortfall in the General Revenue Fund in excess of 1.5% of the moneys appropriated from the General Revenue Fund during a fiscal year, the shortfall must be resolved by the legislature. Any available State funds may be used in eliminating shortfalls in the General Revenue Fund. Additionally, the legislature may eliminate a shortfall by reducing appropriations.

Evaluation, Accounting and Auditing Procedures

Florida has an integrated general ledger accounting system which provides on-line monitoring of budget commitments by individual agency units. This system prevents agencies from overcommitting available funds.

Each State agency supported by any form of taxation, licenses, fees, imposts, or exactions must file with the Chief Financial Officer financial and other information necessary for preparation of the State's annual financial statements. In addition, each such agency must prepare financial statements showing the financial position and results of agency operations as of June 30 for internal management purposes. The Chief Financial Officer is responsible for preparing the State's combined annual financial report, copies of which are available from the Chief Financial Officer, Division of Accounting and Auditing. The Auditor General conducts annual audits of all officers and agencies in the executive and judicial branches. Individual agency audits are made in accordance with generally accepted auditing standards and governmental auditing standards as adopted by the State Board of Accountancy. In addition to the annual financial and compliance audits, performance audits are made to determine the efficiency and effectiveness of agency operations.

Systems and procedures are in place to enable the State and its component units to comply in a timely manner with Governmental Accounting Standards Board Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.

REVENUES

Major sources of tax revenues to the General Revenue Fund are the sales and use tax, corporate income tax, intangible personal property tax, beverage tax, and insurance premium tax. Unlike many other jurisdictions, ***the State of Florida does not levy ad valorem taxes on real property or tangible personal property, nor does it impose a personal income tax.***

Sales and Use Tax

The largest single source of tax receipts in Florida is the sales and use tax. It is a uniform tax upon either the sale of tangible personal property at retail or its use irrespective of where it may have been purchased. The sales tax is 6% of the sales price of tangible personal property sold at retail in the State, and the use tax is 6% of the cost price of tangible personal property used or stored for use in this State. In addition, local governments may (by referendum) assess a 0.5% or 1% discretionary sales surtax within their county.

The sales tax is also levied on the following: (1) rental of tangible personal property; (2) rental of transient lodging and non-

residential real property; (3) admissions to places of amusement, most sports and recreation events; (4) non-residential utilities (at a 7% rate); and (5) restaurant meals.

Exemptions include groceries, medicines, hospital rooms and meals, fuels used to produce electricity, electrical energy used in manufacturing, purchases by certain nonprofit institutions, most professional, insurance, and personal service transactions, apartments used as permanent dwellings, the trade-in value of motor vehicles, and residential utilities. The Legislature has, from time to time, temporarily waived collection of sales taxes on such items as clothing under certain prices, school supplies, and hurricane preparedness items.

Receipts of the ***sales and use tax***, with the exception of the tax on gasoline and special fuels, ***are credited to either the General Revenue Fund, counties and cities, the Ecosystem and Restoration Management Trust Fund, the Public Employees Relations Commission Trust Fund, or may be distributed for the use of sports facilities and to make emergency distributions to qualified counties.*** Legislation was enacted in 2000 which

provides that 2.25% of sales tax receipts are to be deposited in the Revenue Sharing Trust Fund for Counties in lieu of intangible personal property taxes which were so distributed under prior law.

Motor Fuel Tax

The second largest source of State tax receipts is the tax on motor and diesel fuels. However, **these revenues are almost entirely dedicated trust funds** for specific purposes and are not included in the State General Revenue Fund.

Taxes on motor fuels (gasoline) and diesel fuels include several distinct fuel taxes: (1) the State sales tax on motor and diesel fuels, levied at 6.9 cents per gallon; (2) the State excise tax of four cents per gallon of motor and diesel fuel, with proceeds distributed to local governments; (3) the State Comprehensive Enhanced Transportation System (SCETS) tax, which is levied at a rate in each county equal to two-thirds of the sum of the county's local option motor fuel taxes, not to exceed 4 cents per gallon, for motor fuel and 4 cents per gallon for diesel fuel; (4) aviation fuel, at 6.9 cents per gallon; and (5) local option motor fuel taxes, which may range between one cent to 12 cents per gallon.

Most of the proceeds of the sales tax on motor and diesel fuels are deposited into the State Transportation Trust Fund for road maintenance and construction. The proceeds of the State excise tax of four cents per gallon is distributed by formula to local governments. The first two cents (described as the Constitutional Gas Tax) are primarily pledged for each county's debt service requirements, with any remaining balance deposited into the county's transportation trust fund. The remaining two cents of the excise tax (described as the County and Municipal Gas Taxes) are part of the State Revenue Sharing Program. Proceeds from the SCETS tax are, to the maximum extent possible, expended on road projects in the counties in which the revenues are derived. Local option gas taxes of one to 11 cents per net gallon, and the so-called "ninth cent fuel tax" of one cent per net gallon, of motor and diesel fuel may be levied by counties, for use by local governments for transportation expenditures. Local Option Gas Tax revenues may be pledged for payment of bonds issued by the Division of Bond Finance on behalf of local governments to fund transportation capital improvements.

Alcoholic Beverage Tax

Florida's alcoholic beverage tax is an excise tax on beer, wine, and liquor. Fifty percent of the revenues collected from the taxes on wine produced by manufacturers in this State from products grown in this State are deposited in the Viticulture Trust Fund. The remainder of revenues are deposited into the General Revenue Fund.

Corporate Income Tax

Florida collects a tax upon the net income of corporations, organizations, associations, and other artificial entities for the privilege of conducting business, deriving income, or existing within the State. This tax is currently levied at a rate 5.5% of net corporate income, less a \$5,000 exemption. Beginning January 1, 2012, the exemption increases to \$25,000. Net income is defined as that share of adjusted federal income which is apportioned to Florida.

All business income is apportioned by weighted factors of sales (50%), property (25%), and payroll (25%).

Florida adopted an emergency excise tax to recoup taxes lost through reductions in adjusted federal income resulting from the Accelerated Cost Recovery System under federal tax law. As a result of the 1986 Tax Reform Act, this tax has been repealed on assets placed in service after January 1, 1987.

All receipts of the corporate income tax are credited to the General Revenue Fund.

Documentary Stamp Tax

Deeds and other documents relating to realty are taxed upon execution or recording at 70 cents per \$100 of consideration. Bonds, certificates of indebtedness, promissory notes, wage assignments, and retail charge accounts are taxed upon issuance or renewal at 35 cents per \$100 of face value, or actual value if issued without face value.

At its inception, documentary stamp tax proceeds were credited to the General Revenue Fund. However, over the years a series of statutory amendments have dedicated portions of the proceeds to various trust funds for specific purposes. One of the largest portions is dedicated to the Land Acquisition Trust Fund, which receives 9.5% (less \$6.3 million, which is distributed to the General Revenue Fund) of collections. The 2005 legislature enacted legislation which dedicates a portion (currently \$541.75 million) of documentary tax collections which otherwise would have gone to the General Revenue Fund, for growth management. In addition, a measure was adopted, effective July 1, 2007, which limits the dollar amount of distributions to certain funds, subject to adjustment, beginning July 1, 2008, if collections exceed the prior year's receipts.

Documentary stamp tax collections are now effectively distributed as follows:

- 63.31% Regarded as the General Revenue distribution, this portion of collections is first applied to pay debt service on Preservation 2000 Bonds, Florida Forever Bonds, and Everglades Restoration Bonds. The balance of this allocation goes to the General Revenue Fund after funding:
 - the State Transportation Trust Fund (the lesser of 38.2% of the remainder or \$541.75 million);
 - to the Grants and Donations Trust Fund (the lesser of .23% of the remainder or \$3.25 million);
 - the Ecosystem Management and Restoration Trust Fund (the lesser of 2.12% of the remainder or \$30 million);
 - to fund the General Inspection Trust Fund (the lesser of .02% of the remainder or \$300,000);
- 3.128% to the Conservation and Recreation Lands Trust Fund;
- 0.392% to the State Game Trust Fund
- .25% to the Department of Environmental Protection Water Quality Assurance Trust Fund;
- .25% to the Department of Agriculture and Consumer Services General Inspection Trust Fund;

the lesser of ___ % or \$ ___ million (%/\$)

| | |
|----------------|---|
| 7.56% / \$84.9 | \$6.3 million to General Revenue Fund, remainder to Land Acquisition Trust Fund |
| 1.94% / \$26 | to the Land Acquisition Trust Fund; |
| 4.2% / \$60.5 | to the Water Management Lands Trust Fund; |
| 2.28% / \$34.1 | to the Invasive Plant Control Trust Fund; |
| .5% / \$9.3 | to the State Game Trust Fund; |
| 4.8475% | to the State Housing Trust Fund; |
| 11.3425% | to the Local Government Housing Trust Fund. |

Except to the extent needed to pay debt service on bonds, proceeds are subject to an 8% general revenue service charge and costs of the Department of Revenue necessary to collect and enforce the tax.

Intangible Personal Property Tax

The State formerly levied an annual, recurring tax on intangible personal property situated in the State, such as stocks, bonds, notes, governmental leaseholds, and interests in limited partnerships registered with the Securities and Exchange Commission. Obligations issued by the State or local governmental entities in Florida, or by the federal government, were exempt from such taxation. The Legislature abolished the annual, recurring tax as of January 1, 2007, effectively eliminating the tax on intangible personal property held on or after January 2, 2006.

A non-recurring 2 mill tax continues to be levied on mortgages and other obligations secured by liens on Florida realty. The tax is payable upon recording the instrument or within 30 days of creation of the obligation. The tax proceeds are deposited to the General Revenue Fund.

Insurance Premium Tax

The insurance premium tax is a tax on insurance premiums received by insurers. The tax is paid by insurance companies at the following rates: 1.75% on gross premiums minus reinsurance and return premiums; 1% on annuity premiums; 1.6% on self insurers; and 5% on surplus lines premiums and independently procured coverage. Corporation income taxes and emergency excise taxes paid to Florida are credited against premium tax liability, as are certain other taxes. In addition to the premium taxes imposed, a \$2 surcharge is imposed on homeowner's policies, and a \$4 surcharge is imposed on commercial policies issued or renewed on or after May 1, 1993.

Assessments for Police and Firefighter pension funds are distributed to local governments. Fire Marshal assessments, filing fees and \$125,000 annually, adjusted by the lessor of 20 percent or the growth in total retaliatory taxes, are deposited into the Insurance Regulatory Trust Fund. The remainder of the Premium Tax is deposited to the General Revenue Fund. Surcharge collections are deposited to the Emergency Management, Preparedness, and Assistance Trust Fund, administered by the Department of Community Affairs.

Gross Receipts Tax

The gross receipts tax is imposed at a rate of 2.5% of the gross receipts of providers of electricity, natural gas, and telecommunications services. Telecommunications services are subject to a unified Telecommunications Services Tax, a portion of which is collected with the gross receipts tax at revenue-neutral rates.

All gross receipts tax collections are credited to the Public Education Capital Outlay and Debt Service Trust Fund. The potential impact of electric utility deregulation on gross receipts tax collections cannot be determined at this time.

Communications Services Tax

The communications services tax is imposed on retail sales of communications services which originate and terminate in Florida, or originate or terminate in Florida and are billed to a Florida address. Communications services include all forms of telecommunications previously taxed by the gross receipts tax plus cable television and direct-to-home satellite service. The communications services tax replaced certain sales and use taxes and gross receipts taxes, at revenue-neutral rates. Communications services tax receipts are included in sales tax and gross receipts tax collections, as appropriate.

Other State Taxes

To the extent not pre-empted to the federal government, the State levies a one-time excise tax on cigarettes, at rates based on their weight and package quantity, and on other tobacco products at the rate of 25% of the wholesale price. The State also imposes a tax on racing and jai-alai admissions, and on contributions to pari-mutuel pools, or "handle."

Tobacco Litigation Settlement

As a result of settling litigation by the State against the tobacco industry in 1997, Florida expects to receive more than \$11 billion over 25 years. Payments are subject to adjustment for various factors, including inflation and tobacco product sales volume. Proceeds of the settlement are expected to be used for children's health care coverage and other health-related services, to reimburse the State for medical expenses, for improvements in State efforts to reduce sales of tobacco products to minors, and to promote production of reduced risk tobacco products.

A portion of the tobacco settlement revenues have been deposited in the Lawton Chiles Endowment Fund to provide a perpetual source of funding for health and human services for children and elders, and for biomedical research activities. As of June 30, 2010, the market value of the endowment was \$626.8 million.

Lottery

In order to provide additional funding for education, the 1987 Legislature created the Department of the Lottery to operate a State lottery. Revenues generated by the Florida Lottery are used to pay prizes, fund the Educational Enhancement Trust Fund, and pay the administrative costs of operating the lottery.

FLORIDA FINANCIAL INFORMATION

The following tables present information regarding the State's historical and projected financial resources, as well as budgets by program area and appropriations by department.

Five Year History of Trust Fund and General Revenues¹

(millions of dollars)

| <u>General Revenue Receipts²</u> | <u>2005-06</u> | <u>2006-07</u> | <u>2007-08</u> | <u>2008-09</u> | <u>2009-10</u> |
|---|-----------------|-----------------|-----------------|-----------------|-----------------|
| Sales and Use Tax ³ | \$19,367.4 | \$19,435.2 | \$18,428.9 | \$16,531.4 | \$16,014.7 |
| Beverage Licenses and Taxes | 590.4 | 637.5 | 609.2 | 582.1 | 585.7 |
| Corporation Income Tax | 2,405.4 | 2,443.7 | 2,216.8 | 1,833.4 | 1,790.0 |
| Documentary Stamp Tax | 1,241.8 | 625.5 | 203.4 | 130.2 | 143.3 |
| Corporate Filing Fees | 191.7 | 196.2 | 220.1 | 239.9 | 238.1 |
| Tobacco Tax | 277.6 | 279.2 | 271.1 | 278.9 | 205.8 |
| Insurance Premium Tax | 611.7 | 697.4 | 672.1 | 614.7 | 649.2 |
| Indian Gaming | 0.0 | 0.0 | 0.0 | 0.0 | 287.5 |
| Pari-mutuel Fees, Licenses and Taxes | 16.0 | 32.1 | 22.4 | 15.1 | 15.7 |
| Slot Machine Licenses GR | 0.0 | 0.0 | 4.5 | 4.9 | 12.0 |
| Intangible Personal Property Tax | 1,085.0 | 772.6 | 436.3 | 200.0 | 158.7 |
| Estate Tax | 71.4 | 43.4 | 0.0 | 0.0 | 0.0 |
| Interest Earnings | 320.8 | 473.1 | 446.3 | 126.8 | 118.1 |
| Auto Title and Lien Fees | 34.5 | 33.1 | 29.0 | 24.2 | 182.3 |
| Oil and Gas Severance Tax | 7.2 | 7.2 | 9.0 | 4.4 | 2.2 |
| Solid Mineral Severance Tax | 15.3 | 10.3 | 12.4 | 13.6 | 10.8 |
| Drivers Licenses and Fees | 74.4 | 71.5 | 71.3 | 82.8 | 172.8 |
| Motor Vehicle and Mobile Home Licenses | 0.8 | 0.8 | 0.8 | 0.7 | 311.0 |
| Article V Fees & Transfers | 87.5 | 103.9 | 113.7 | 258.2 | 190.6 |
| Medical and Hospital Fees | 181.0 | 172.6 | 165.9 | 138.1 | 210.2 |
| Motor Vehicle Fees and Charges | 1.9 | 0.0 | 0.0 | 0.0 | 75.1 |
| Fines/Foreitures/Judgements GR | 56.5 | 60.9 | 58.8 | 18.6 | 18.2 |
| Other GR | 355.3 | 399.5 | 223.3 | 151.9 | 233.4 |
| Total GR Collections and Transfers | 26,849.8 | 26,330.5 | 24,215.3 | 21,319.1 | 21,625.7 |
| Plus Service Charges to GR | 532.1 | 440.5 | 362.6 | 304.7 | 435.2 |
| Less Refunds of GR | (317.3) | (366.9) | (465.8) | (598.2) | (537.8) |
| Net GR Collections and Transfers | 27,064.5 | 26,404.1 | 24,112.1 | 21,025.6 | 21,523.1 |
| | | | | | |
| Trust Fund Revenues² | | | | | |
| <u>Major Transportation Revenues:</u> | | | | | |
| Auto Title and Lien Fees | 114.8 | 109.7 | 100.9 | 86.9 | 118.1 |
| Motor Fuel Tax | 1,814.4 | 1,871.1 | 1,867.4 | 1,824.3 | 1,855.4 |
| Motor Vehicle and Mobile Home Licenses | 554.4 | 572.3 | 536.3 | 499.9 | 777.2 |
| Motor Vehicle Fees and Charges | 248.0 | 246.2 | 246.8 | 236.9 | 213.9 |
| Subtotal | 2,731.7 | 2,799.3 | 2,751.4 | 2,648.0 | 2,964.5 |
| | | | | | |
| <u>Workers Insurance Tax:</u> | | | | | |
| Workers' Compensation Tax | 71.0 | 53.4 | 33.6 | 17.1 | 19.5 |
| Workers' Comp. Special Disability | 248.7 | 239.5 | 189.3 | 144.1 | 112.4 |
| Unemployment Compensation Tax | 1,233.3 | 1,037.6 | 874.6 | 879.5 | 1,155.5 |
| Subtotal | 1,552.9 | 1,330.5 | 1,097.5 | 1,040.6 | 1,287.5 |
| | | | | | |
| <u>Conservation and Recreational Lands:</u> | | | | | |
| Documentary Stamp Tax | 2,658.4 | 2,286.9 | 1,678.2 | 956.3 | 900.7 |
| Solid Mineral Severance Tax | 19.0 | 18.0 | 22.3 | 51.8 | 39.4 |
| Oil and Gas Severance Tax | 1.1 | 0.9 | 2.7 | 2.1 | 1.3 |
| Sales and Use Tax | 62.9 | 63.9 | 63.9 | 60.7 | 23.7 |
| Subtotal | 2,741.4 | 2,369.7 | 1,767.1 | 1,070.9 | 965.1 |
| | | | | | |
| <u>Education - Tuition, Fees and Charges:</u> | | | | | |
| Slot Machine Tax to Education | 0.0 | 48.2 | 122.3 | 104.1 | 136.4 |
| Lottery to Education | 1,218.5 | 1,256.4 | 1,277.1 | 1,284.8 | 1,247.3 |
| Subtotal | 1,218.5 | 1,304.5 | 1,399.4 | 1,388.9 | 1,383.8 |
| | | | | | |
| <u>Agencies' Administrative Trust Funds:</u> | | | | | |
| Beverage Licenses and Taxes | 75.5 | 39.7 | 23.3 | 30.7 | 27.6 |
| Insurance Premium Tax | 57.8 | 80.0 | 36.2 | 43.7 | 51.0 |
| General Inspection Fees and Licenses | 50.6 | 52.5 | 53.3 | 61.0 | 57.4 |
| Citrus Inspection Fees and Licenses | 20.8 | 19.7 | 13.1 | 18.2 | 14.8 |
| D.F.S. and Treas Fees, Licenses & Taxes | 117.8 | 128.6 | 130.0 | 149.8 | 100.2 |
| Citrus Taxes | 33.5 | 41.8 | 53.2 | 49.0 | 41.4 |
| Hunting and Fishing Licenses | 36.5 | 36.2 | 44.3 | 45.1 | 47.5 |
| Pari-mutuel Fees, Licenses and Taxes | 17.6 | 1.8 | 11.4 | 14.1 | 10.9 |
| Professional Fees and Licenses | 75.5 | 71.2 | 56.0 | 69.2 | 18.5 |
| Drivers' Licenses and Fees | 59.8 | 56.4 | 50.5 | 51.2 | 125.1 |
| Slot Machine Licenses and Fees | 0.0 | 13.4 | 10.1 | 5.0 | 4.6 |
| Lottery to Administration | 420.8 | 424.6 | 422.9 | 414.6 | 337.1 |
| Subtotal | 966.1 | 966.0 | 904.3 | 951.7 | 836.1 |

(Five Year History of Trust Fund and General Revenues - continued)

| Other Trust Fund Revenues for State Use: | <u>2005-06</u> | <u>2006-07</u> | <u>2007-08</u> | <u>2008-09</u> | <u>2009-10</u> |
|---|-----------------|-----------------|-----------------|-----------------|-----------------|
| Tobacco Tax | 167.8 | 163.6 | 161.8 | 157.0 | 1,129.1 |
| Lottery to Prizes | 2,349.3 | 2,461.6 | 2,504.0 | 2,260.8 | 2,324.7 |
| Tobacco Fines/Forfeitures/Judgements Trust | 389.7 | 396.4 | 398.4 | 388.8 | 363.7 |
| Other Fines/Forfeitures/Judgements Trust | 270.8 | 256.2 | 299.9 | 274.4 | 236.7 |
| Article V Fees | 10.4 | (5.5) | (1.2) | 1.3 | 496.6 |
| Interest Earnings | 351.0 | 535.7 | 615.8 | 311.5 | 153.0 |
| Miscellaneous Revenues ⁴ | 162.9 | 169.2 | 187.6 | 176.6 | 157.2 |
| Other Trust | <u>2,136.7</u> | <u>2,417.8</u> | <u>2,305.6</u> | <u>1,826.2</u> | <u>2,335.2</u> |
| Subtotal | 5,838.5 | 6,395.1 | 6,471.9 | 5,396.6 | 7,196.1 |
| Total Trust Fund Revenue for State Use | 15,049.1 | 15,165.2 | 14,391.6 | 12,496.8 | 14,632.9 |

**Revenues Shared With Local Governments
and School Districts**

| | | | | | |
|---|----------------|----------------|----------------|----------------|----------------|
| Sales and Use Tax | 2,382.1 | 2,378.0 | 2,228.5 | 2,017.4 | 1,953.6 |
| Beverage Licenses and Taxes | 12.9 | 13.4 | 13.5 | 14.1 | 13.7 |
| Documentary Stamp Tax | 158.1 | 120.4 | 73.4 | 36.2 | 34.6 |
| Insurance Premium Tax | 146.1 | 168.1 | 175.1 | 156.3 | 156.4 |
| Article V Fees | 19.3 | 19.8 | 21.9 | 19.4 | 0.0 |
| Motor Fuel Tax | 421.7 | 419.4 | 406.4 | 387.7 | 388.4 |
| Oil and Gas Severance Tax | 1.2 | 1.2 | 1.6 | 1.3 | 0.4 |
| Solid Mineral Severance Tax | 11.7 | 8.3 | 8.5 | 8.0 | 8.4 |
| Gross Receipts Tax ³ | 975.8 | 1,067.6 | 1,126.0 | 1,126.2 | 1,097.7 |
| Mtr Vehicle and Mobile Home Licenses | 138.2 | 140.6 | 133.2 | 119.4 | 124.7 |
| Tobacco Taxes | 11.4 | 11.2 | 10.9 | 11.1 | 8.0 |
| Other Fees, Licenses and Taxes ³ | <u>52.2</u> | <u>73.5</u> | <u>56.6</u> | <u>58.5</u> | <u>55.6</u> |
| Total Local Government | 4,330.7 | 4,401.7 | 4,255.4 | 3,955.8 | 3,841.5 |

Federal and Local Assistance

| | | | | | |
|---|-----------------|-----------------|-----------------|-----------------|-----------------|
| Counties and Cities | 60.9 | 32.6 | 88.1 | 72.6 | 73.5 |
| U.S. Government | 17,732.0 | 17,393.1 | 17,818.3 | 20,483.0 | 28,124.9 |
| Other Grants | <u>108.3</u> | <u>94.9</u> | <u>105.1</u> | <u>147.1</u> | <u>232.9</u> |
| Total Federal and Local Assistance | 17,901.2 | 17,520.5 | 18,011.5 | 20,702.7 | 28,431.4 |

Summary of Trust Fund and General Revenue⁵

| | <u>2005-06</u> | <u>2006-07</u> | <u>2007-08</u> | <u>2008-09</u> | <u>2009-10</u> |
|--|-------------------|-------------------|-------------------|-------------------|-------------------|
| General Revenue | \$26,849.8 | \$26,330.5 | \$24,215.3 | \$21,025.6 | \$21,523.1 |
| Trust Fund | 15,049.1 | 15,165.2 | 14,391.6 | 12,496.8 | 14,632.9 |
| Revenues Shared with Local Governments | 4,330.7 | 4,401.7 | 4,255.4 | 3,955.8 | 3,841.5 |
| Donations & Fed Assistance | <u>17,912.1</u> | <u>17,621.3</u> | <u>18,011.5</u> | <u>20,702.7</u> | <u>28,431.4</u> |
| Total Direct Revenues | \$64,141.7 | \$63,518.7 | \$60,873.8 | \$58,180.9 | \$68,428.9 |

Source: Florida Office of Economic and Demographic Research, Fall 2010.

¹ Numbers may not add due to rounding.

² The Trust Fund portion of each tax source may include an obligatory General Revenue service charge, thereby reducing the dollars available for appropriations out of the trust fund.

³ Includes portion of Communications Services Tax.

⁴ Includes an unknown amount of General Revenue appropriations.

⁵ Shown before transfers of General Revenue service charges and refunds.

(Remainder of page intentionally left blank)

GENERAL REVENUE FUND
FINANCIAL RETROSPECT AND OUTLOOK STATEMENTS¹

Retrospect Statement
Fiscal Years 2008-09, 2009-10
(millions of dollars)

| | Recurring Funds | Non-Recurring Funds | Total All Funds |
|---|--------------------|------------------------|-----------------------|
| FUNDS AVAILABLE 2008-09 | | | |
| Balance forward from 2007-08 | \$0.0 | \$320.9 | \$320.9 |
| Miscellaneous adjustments | 0.0 | 19.5 | 19.5 |
| Revenue collections | 20,962.0 | 74.4 | 21,036.4 |
| Transfers from trust funds | 0.0 | 939.8 | 939.8 |
| Transfer from Budget Stabilization Fund | 0.0 | 1,072.4 | 1,072.4 |
| Transfer from Lawton Chiles Endowment Fund | 0.0 | 700.0 | 700.0 |
| Transfer from Florida Housing Finance Corporation | 0.0 | 190.0 | 190.0 |
| Repayment of storm related loans ² | 0.0 | 9.3 | 9.3 |
| FCO reversions | 0.0 | 5.6 | 5.6 |
| Cancellation of warrants | (0.9) | 2.0 | 1.1 |
| Federal funds interest earnings rebate | <u>(2.7)</u> | <u>0.0</u> | <u>(2.7)</u> |
| Total 2008-09 funds available | \$20,958.4 | \$3,333.9 | \$24,292.3 |
| EXPENDITURES 2008-09 | | | |
| Operations | \$11,202.0 | \$374.3 | \$11,576.3 |
| Aid to Local Government | 11,820.3 | 20.1 | 11,840.4 |
| Fixed Capital Outlay | (134.6) | 328.4 | 193.8 |
| FCO/Aid to Local Governments | 0.0 | 47.8 | 47.8 |
| Nonoperating disbursements | <u>0.0</u> | <u>2.6</u> | <u>2.6</u> |
| Total 2008-09 expenditures | \$22,887.7 | \$773.2 | \$23,660.9 |
| Ending Balance | (\$1,929.3) | \$2,560.7 | \$631.4 |
| Budget Stabilization Fund | - | - | <u>\$281.3</u> |
| Available Reserves | - | - | \$912.7 |
| FUNDS AVAILABLE 2009-10 | | | |
| Balance forward from 2008-09 | \$0.0 | \$631.4 | \$631.4 |
| Miscellaneous adjustments | 0.0 | 0.1 | 0.1 |
| Revenue collections | 21,488.8 | 46.7 | 21,535.5 |
| Transfers from trust funds | 0.0 | 599.1 | 599.1 |
| FCO reversions | 0.0 | 30.8 | 30.8 |
| Federal funds interest earnings rebate | <u>(0.6)</u> | <u>0.0</u> | <u>(0.6)</u> |
| Total 2009-10 funds available | \$21,488.2 | \$1,308.1 | \$22,796.3 |
| EXPENDITURES 2009-10 | | | |
| Operations | \$9,299.3 | \$838.4 | \$10,137.1 |
| Aid to Local Government | 10,958.6 | 58.5 | 11,017.1 |
| Fixed Capital Outlay | 52.7 | 10.0 | 62.7 |
| FCO/Aid to Local Government | 0.0 | 2.9 | 2.9 |
| Nonoperating disbursements | <u>0.0</u> | <u>2.6</u> | <u>2.6</u> |
| Total 2009-10 expenditures | \$20,310.6 | \$912.4 | \$21,223.0 |
| Ending Balance | \$1,177.6 | \$395.7 | \$1,573.2 |
| Budget Stabilization Fund | - | - | <u>\$276.0</u> |
| Available Reserves | - | - | \$1,849.2 |

FINANCIAL OUTLOOK STATEMENT⁵
Fiscal Years 2010-11, 2011-12, 2012-13, 2013-14

including results of the July 27, 2011 Revenue Estimating Conference (millions of dollars)

| | <u>Recurring Funds</u> | <u>Non-Recurring Funds</u> | <u>Total All Funds</u> |
|--|----------------------------|--------------------------------|--------------------------------|
| FUNDS AVAILABLE 2010-11 | | | |
| Balance forward from 2009-10 | \$0.0 | \$1,573.2 | \$1,573.2 |
| Estimated revenues | 22,194.7 | 356.9 | 22,551.6 |
| Transfers from trust funds | 0.0 | 366.7 | 366.7 |
| Federal funds interest earnings rebate | <u>(4.3)</u> | <u>0.0</u> | <u>(4.3)</u> |
| Total 2010-11 funds available | \$22,190.4 | \$2,296.8 | \$24,487.2 |
| EFFECTIVE APPROPRIATIONS 2010-11 | | | |
| Operations | \$10,839.5 | \$984.6 | \$11,824.1 |
| Aid to local government | 11,693.8 | 358.8 | 12,052.6 |
| Fixed capital outlay | 74.2 | 5.4 | 79.6 |
| Fixed capital outlay/aid to local government | 0.0 | 79.2 | 79.2 |
| Transfer to Campaign Financing TF | 0.0 | 6.1 | 6.1 |
| Indian Gaming county revenue sharing | 0.8 | 0.0 | 0.8 |
| Reappropriations | 0.0 | 14.2 | 14.2 |
| Failed Contingency Appropriation (Section 73, GAA) | 0.0 | <u>(50.0)</u> | <u>(50.0)</u> |
| Restoration of appropriation (H11-A) | 9.7 | 0.0 | 9.7 |
| Budget Amendment (EOG# AFP5) | 0.0 | 1.8 | 1.8 |
| SB2000 (2011) appropriations | 0.0 | 112.9 | 112.9 |
| SB2000 (2011) appropriations/vetoes | 0.0 | <u>(0.1)</u> | <u>(0.1)</u> |
| SB2000 (2011) reverted appropriations | 0.0 | <u>(77.0)</u> | <u>(77.0)</u> |
| Supplemental appropriation bills (2011) | <u>0.0</u> | <u>0.3</u> | <u>0.3</u> |
| Total 2010-11 effective appropriations | \$22,618.0 | \$1,436.2 | \$24,054.2 |
| Ending Balance ^{3,4} | (\$427.6) | \$860.6 | \$433.0 |
| FUNDS AVAILABLE 2011-12 | | | |
| Balance forward from 2010-11 | \$0.0 | \$433.0 | \$433.0 |
| Estimated revenues | 23,615.3 | 179.8 | 23,795.1 |
| Transfers from trust funds | 0.0 | 388.5 | 388.5 |
| Unused appropriations/reversions | 0.0 | 83.6 | 83.6 |
| Additional Reversions | 0.0 | 43.9 | 43.9 |
| FCO reversions | 0.0 | 2.0 | 2.0 |
| Federal funds interest earnings rebate | <u>(4.3)</u> | <u>0.0</u> | <u>(4.3)</u> |
| Total 2011-12 funds available | \$23,611.0 | \$1,130.8 | \$24,741.8 |
| EFFECTIVE APPROPRIATIONS 2011-12 | | | |
| General Appropriations Act (SB2000) | \$22,819.5 | \$363.2 | \$23,182.7 |
| Transfer to Budget Stabilization Fund | 0.0 | 214.5 | 214.5 |
| Supplemental appropriations | 10.0 | 76.5 | 86.5 |
| Appropriations placed in reserve | 0.0 | <u>(0.5)</u> | <u>(0.5)</u> |
| Vetoes | <u>(30.2)</u> | <u>(68.7)</u> | <u>(98.9)</u> |
| Total 2011-12 effective appropriations | \$22,799.3 | \$584.9 | \$23,384.3 |
| Ending Balance | \$811.7 | \$545.9 | \$1,357.5 |
| FUNDS AVAILABLE 2012-13 | | | |
| Balance forward from 2011-12 | \$0.0 | \$1,357.5 | \$1,357.5 |
| Estimated revenues | 25,275.8 | 219.3 | 25,495.1 |
| Unused appropriations/reversions | 0.0 | 83.6 | 83.6 |
| FCO reversions | 0.0 | 2.0 | 2.0 |
| Federal funds interest earnings rebate | <u>(4.3)</u> | <u>0.0</u> | <u>(4.3)</u> |
| Total 2012-13 funds available | \$25,271.5 | \$1,662.4 | \$26,933.9 |
| FUNDS AVAILABLE 2013-14 | | | |
| Estimated revenues | \$26,871.9 | \$191.7 | \$27,063.6 |
| Unused appropriations/reversions | 0.0 | 83.6 | 83.6 |
| FCO reversions | 0.0 | 2.0 | 2.0 |
| Federal funds interest earnings rebate | <u>(4.3)</u> | <u>0.0</u> | <u>(4.3)</u> |
| Total 2013-14 funds available | \$26,867.6 | \$277.3 | \$27,144.9 |

Source: Office of Economic and Demographic Research.

¹ Based on November 15, 2010 Retrospect and the July 27, 2011 Revenue Estimating Conference.

² Hurricane related loans were made through budget amendments, which anticipate repayment from FEMA funds.

³ The Budget Stabilization Fund is available to address budget shortfalls or to provide emergency funding, as described in "STATE FINANCIAL OPERATIONS - Budget Shortfall" in this Appendix A. Hurricane related budget amendments transferred \$11 million to the Casualty Insurance Risk Management Trust Fund in Fiscal Year 2004-05 and \$11.8 million in Fiscal Year 2005-06. Such transfers must be restored in five equal annual transfers from the General Revenue Fund, commencing in the third Fiscal Year following that in which the expenditure was made. As of July 27, 2011, \$2.1 million remained unpaid.

⁴ The amount of \$1,072.4 million was transferred out of the Budget Stabilization Fund to the General Revenue Fund in Fiscal Year 2008-09. Section 215.32(3) F.S. stipulates that repayments to the fund are appropriated in five equal installments beginning in the third year following the year in which the expenditure was made, unless otherwise established by law. Per the aforementioned statute, the first repayment was appropriated for 2011-12, and four additional repayments in the amount of \$214.5 million will be required for Fiscal Year 2012-13 through Fiscal Year 2015-16.

⁵ This financial statement is based on current law as it is currently administered. It does not include the potential effect of any legal actions which might affect revenues or appropriations. The Attorney General periodically issues an update on any such litigation. In addition, it does not recognize any deficits in any spending programs unless specifically stated.

Actual and Projected General Revenues

The actual general revenue collections for Fiscal Year 2009-10 of \$21,523.1 million were \$497.9 million, or 2.4%, more than collections for Fiscal Year 2008-09. Actual general revenue collections for Fiscal Years 2008-09 and 2009-10, and projections adopted at the March 18, 2011 meeting of the Revenue Estimating Conference for Fiscal Years 2010-11 through 2013-14, are shown in the following table.

General Revenues Fiscal Years 2008-09 through 2013-14 (millions of dollars)

| | Act. 2008-09 | | Act. 2009-10 | | Est. 2010-11 | | Est. 2011-12 | | Est. 2012-13 | | Est. 2013-14 | |
|---|----------------|----------------|-----------------------|----------------|-----------------------|----------------|-----------------------|----------------|-----------------------|----------------|-----------------------|--|
| | Actual | Actual | % Change ¹ | Estimate | % Change ¹ | |
| Sales Tax- GR | \$16,531.4 | \$16,014.7 | (3.1)% | \$16,513.3 | 3.1% | \$17,436.4 | 5.6% | \$18,816.7 | 7.9% | \$19,962.2 | 6.1% | |
| Beverage Tax & Licenses | 582.1 | 585.7 | 0.6 | 532.2 | (9.1) | 523.0 | (1.7) | 509.6 | (2.6) | 492.1 | (3.4) | |
| Corporate Income Tax | 1,833.4 | 1,790.0 | (2.4) | 1,908.2 | 6.6 | 2,112.4 | 10.7 | 2,139.8 | 1.3 | 2,204.0 | 3.0 | |
| Documentary Stamp Tax ² | 130.2 | 143.3 | 10.1 | 165.4 | 15.4 | 218.0 | 31.8 | 313.9 | 44.0 | 575.9 | 83.5 | |
| Tobacco Tax | 278.9 | 205.8 | (26.2) | 216.8 | 5.3 | 214.9 | (0.9) | 214.2 | (0.3) | 214.3 | - | |
| Insurance Premium Tax | 614.7 | 649.2 | 5.6 | 649.6 | 0.1 | 620.8 | (4.4) | 639.1 | 2.9 | 647.0 | 1.2 | |
| Pari-Mutuels Tax | 20.0 | 27.7 | 38.5 | 24.3 | (12.3) | 24.1 | (0.8) | 22.4 | (7.1) | 24.2 | 8.0 | |
| Intangibles Tax ³ | 200.0 | 158.7 | (20.7) | 174.9 | 10.2 | 204.1 | 16.7 | 237.0 | 16.1 | 275.1 | 16.1 | |
| Interest Earnings | 126.8 | 118.1 | (6.9) | 125.5 | 6.3 | 117.5 | (6.4) | 170.5 | 45.1 | 257.7 | 51.1 | |
| Indian Gaming Revenues | - | 287.5 | - | 139.7 | (51.4) | 145.5 | 4.2 | 221.2 | 52.0 | 226.0 | 2.2 | |
| Highway Safety Licenses & Fees ⁴ | 124.0 | 746.0 | 501.6 | 977.2 | 31.0 | 1,061.0 | 8.6 | 1,098.4 | 3.5 | 1,123.8 | 2.3 | |
| Medical & Hospital Fees | 138.1 | 210.2 | 52.2 | 202.1 | (3.9) | 307.8 | 52.3 | 334.8 | 8.8 | 304.7 | (9.0) | |
| Severance Taxes | 18.0 | 13.0 | (27.8) | 17.2 | 32.3 | 16.4 | (4.7) | 16.5 | 0.6 | 16.8 | 1.8 | |
| Corporation Filing Fees | 239.6 | 238.1 | (0.6) | 263.7 | 10.8 | 255.5 | (3.1) | 260.5 | 2.0 | 267.0 | 2.5 | |
| Service Charges | 304.7 | 435.2 | 42.8 | 456.5 | 4.9 | 487.6 | 6.8 | 502.1 | 3.0 | 511.2 | 1.8 | |
| Other Taxes, Licenses & Fees | 481.5 | 437.5 | (9.1) | 376.3 | (14.0) | 405.0 | 7.6 | 373.3 | (7.8) | 362.8 | (2.8) | |
| Less: Refunds | <u>(598.2)</u> | <u>(537.8)</u> | <u>(10.1)</u> | <u>(330.4)</u> | <u>(38.6)</u> | <u>(305.3)</u> | <u>(7.6)</u> | <u>(315.7)</u> | <u>3.4</u> | <u>(324.6)</u> | <u>2.8</u> | |
| Net General Revenue: ⁵ | \$21,025.2 | \$21,523.1 | 2.4% | \$22,412.5 | 4.1% | \$23,844.7 | 6.4% | \$25,554.3 | 7.2% | \$27,140.2 | 6.2% | |

Source: Office of Economic and Demographic Research, March 18, 2011 Consensus Revenue Estimating Conference.

¹ Represents percentage change from prior year, based on current estimates.

² Florida law redirects to various trust funds Documentary Stamp Tax Collections which otherwise would go into the General Revenue Fund, an amount which is set forth as percentages of Documentary Stamp Tax Collections with an aggregate cap of \$657.3 million.

³ The decline in Fiscal Year 2009-10 reflects repeal of the annual recurring tax.

⁴ The substantial increase in Highway Safety Licenses and Fees in Fiscal Year 2009-10 reflect the implementation of rate increases adopted by the 2009 Legislature.

⁵ May not add due to rounding.

The projections are based on the best information available when the estimates are made. **Investors should be aware that there have been material differences between past projections and actual general revenue collections; no assurance can be given that there will not continue to be material differences relating to such amounts.**

Operating and Fixed Capital Outlay Budget By Program Area
Fiscal Years 2007-08 through 2011-12
(In Millions of Dollars)

| Program | 2007-08 | | 2008-09 | | 2009-10 | | 2010-11 | | 2011-12 | |
|--------------------------------|------------------|-------------|------------------|------------|------------------|------------|------------------|------------|------------------|------------|
| | <u>Operating</u> | <u>FCO</u> | <u>Operating</u> | <u>FCO</u> | <u>Operating</u> | <u>FCO</u> | <u>Operating</u> | <u>FCO</u> | <u>Operating</u> | <u>FCO</u> |
| General Revenue | | | | | | | | | | |
| Education | \$14,410.2 | \$ 96.9 | \$12,932.9 | \$8.8 | \$11,377.2 | \$10.9 | \$12,494.9 | \$6.4 | \$11,887.1 | \$29.3 |
| Human Services | 7,632.7 | 29.6 | 7,147.6 | - | 5,200.6 | - | 6,703.4 | 5.4 | 7,012.8 | 1.4 |
| Criminal Justice & Corrections | 3,578.2 | 202.9 | 3,521.6 | 343.9 | 3,487.5 | 45.5 | 3,420.9 | 74.4 | 3,269.7 | 74.7 |
| Natural Resources, Environment | | | | | | | | | | |
| Growth Mngmt, & Transportation | 413.4 | 146.0 | 256.0 | 21.2 | 168.7 | 0.5 | 158.6 | 24.4 | 166.3 | 63.0 |
| General Government | 1,432.7 | 45.3 | 961.9 | 25.8 | 763.4 | 4.9 | 847.7 | 6.7 | 612.4 | 18.4 |
| Judicial Branch | <u>446.8</u> | <u>13.6</u> | <u>403.7</u> | <u>-</u> | <u>134.6</u> | <u>-</u> | <u>46.9</u> | <u>-</u> | <u>47.6</u> | <u>-</u> |
| Total General Revenue | \$27,914.0 | \$534.3 | \$25,223.7 | \$399.7 | \$21,132.0 | \$61.8 | \$23,672.4 | \$117.3 | \$22,995.9 | \$186.8 |
| Trust Funds | | | | | | | | | | |
| Education | \$5,215.5 | \$4,135.7 | \$5,214.0 | \$2,948.4 | \$7,947.1 | \$1,937.2 | \$7,666.6 | \$2,347.3 | \$6,214.5 | \$1,769.7 |
| Human Services | 16,147.5 | 46.3 | 16,129.4 | 95.7 | 20,824.8 | 17.9 | 21,754.7 | 18.8 | 22,927.3 | 49.7 |
| Criminal Justice & Corrections | 615.9 | 0.5 | 659.9 | 0.5 | 1,221.4 | 1.0 | 1,155.6 | - | 1,134.0 | - |
| Natural Resources, Environment | | | | | | | | | | |
| Growth Mngmt, & Transportation | 3,345.4 | 9,314.4 | 2,908.0 | 8,906.8 | 2,375.0 | 6,749.3 | 2,478.7 | 7,116.9 | 2,150.4 | 8,479.3 |
| General Government | 3,461.2 | 80.9 | 3,567.4 | 112.8 | 3,729.0 | 222.6 | 3,554.9 | 78.8 | 3,290.4 | 67.0 |
| Judicial Branch | <u>21.4</u> | <u>-</u> | <u>34.6</u> | <u>-</u> | <u>316.7</u> | <u>-</u> | <u>415.1</u> | <u>0.4</u> | <u>411.6</u> | <u>-</u> |
| Total Trust Funds | \$28,806.9 | \$13,577.8 | \$28,513.3 | \$12,064.2 | \$36,414.0 | \$8,928.0 | \$37,025.6 | \$9,562.2 | \$36,128.2 | \$10,365.7 |
| Total All Funds | | | | | | | | | | |
| Education | \$19,626.0 | \$4,233.0 | \$18,147.0 | \$2,957.0 | \$19,324.0 | \$1,948.0 | \$20,162.0 | \$2,354.0 | \$18,101.6 | \$1,799.0 |
| Human Services | 23,780.2 | 75.9 | 23,277.0 | 95.7 | 26,025.4 | 17.9 | 28,458.1 | 24.2 | 29,940.1 | 51.1 |
| Criminal Justice & Corrections | 4,194.1 | 203.4 | 4,181.5 | 344.4 | 4,708.9 | 46.5 | 4,576.5 | 74.4 | 4,403.7 | 74.7 |
| Natural Resources, Environment | | | | | | | | | | |
| Growth Mngmt, & Transportation | 3,758.8 | 9,460.4 | 3,163.9 | 8,928.0 | 2,543.7 | 6,749.8 | 2,637.3 | 7,141.3 | 2,316.7 | 8,542.3 |
| General Government | 4,893.9 | 126.2 | 4,529.2 | 138.5 | 4,492.4 | 227.5 | 4,402.6 | 85.5 | 3,902.8 | 85.4 |
| Judicial Branch | <u>468.2</u> | <u>13.6</u> | <u>438.3</u> | <u>-</u> | <u>451.3</u> | <u>-</u> | <u>462.0</u> | <u>0.4</u> | <u>459.2</u> | <u>-</u> |
| Total All Funds | \$56,721.2 | \$14,112.5 | \$53,736.9 | \$12,463.6 | \$57,545.7 | \$8,989.7 | \$60,698.5 | \$9,679.8 | \$59,124.1 | \$10,552.5 |

A-20

Source: Annual Conference Committee Report on General Appropriations Bills as passed by the Legislature, before veto messages; does not reflect appropriations made in other legislation or budget amendments.

STATE DEBT

As a general rule, bonds of the State or its agencies are issued by the Division of Bond Finance pursuant to the State Bond Act, ss. 215.57-.83, Florida Statutes. During the 2001 Session the Florida Legislature formalized in statute an annual Debt Affordability Study to be used as a tool for measuring, monitoring and managing the State's debt. The State debt fiscal responsibility policy, s. 215.98, Florida Statutes, establishes debt service to revenues as the benchmark debt ratio to estimate future debt capacity, using a target ratio of 6% and a cap of 7%. The estimated future debt capacity is intended to provide legislative policy makers with information to measure the financial impact of new financing programs and to assist them in formulating capital spending plans.

The study first looks at total State debt outstanding, separating the debt into net tax-supported debt and self supporting debt. Net tax-supported debt is repaid by the State from a specified tax revenue source or general appropriation of the State. Self supporting debt is reasonably expected to be repaid from project revenue or loan repayments. Some but not all of State debt is additionally secured by the full faith and credit of the State.

State Full Faith and Credit Debt

Article VII, Section 11(a) of the Florida Constitution authorizes the issuance of bonds pledging the full faith and credit of the State to finance or refinance State capital outlay projects upon approval by vote of the electors, provided that the outstanding principal amount may not exceed 50% of total State tax revenues for the two preceding fiscal years. There are currently no bonds outstanding under this authorization.

All of Florida's full faith and credit debt which is currently outstanding has been issued under separate constitutional authority which also authorizes the pledge of a dedicated tax or other revenue source as well. Such debt includes bonds for pollution control and abatement and solid waste disposal (operating revenues, assessments); right-of-way acquisition and bridge construction (motor fuel or special fuel taxes); public education capital outlay (gross receipts taxes); roads within a county (second gas tax); and school districts or community colleges (motor vehicle license revenues). Although these bonds are not subject to the above-referenced debt limitation, each program has debt service coverage tests which must be met prior to issuance.

State Revenue Bonds

The Florida Constitution authorizes the issuance of bonds to finance or refinance State capital outlay projects, which are payable from funds derived directly from sources other than State tax revenues.

Bonds outstanding under this authorization include financings for the State University System, individual universities, community colleges, public schools, State owned office facilities, toll roads, ports, and other transportation projects. The Constitution specifically authorizes the issuance of bonds to fund student loans; to finance housing; and to refund outstanding bonds at a lower net interest cost. The Constitution was amended in 1998 to expressly permit the issuance of bonds pledging a dedicated State tax source for the purposes of conservation, outdoor recreation, water resource development, restoration of natural systems, or historic preservation.

Bonds may also be issued, which are payable from documentary stamp taxes deposited in the Land Acquisition Trust Fund for conservation and recreation purposes, including Everglades restoration.

Other Obligations

Although most debt of the State or its agencies is issued through the Division of Bond Finance, there are other entities which issue bonds or incur other long term obligations which are secured by State revenues. These include the Florida Housing Finance Corporation, the Florida Correctional Finance Corporation, the Department of Corrections, the Department of Juvenile Justice, the Department of Children and Families, the Florida Hurricane Catastrophe Fund Finance Corporation and the Inland Protection Financing Corporation. The Florida Legislature has also dedicated 2.59% of cigarette tax collections to the H. Lee Moffitt Cancer Center and Research Institute, for 10 years, which are pledged to secure bonds issued by the City of Tampa. The City of Tallahassee issued bonds to finance relocation of the developmental research school of Florida State University. The bonds are payable from lease revenues appropriated to the University each year. The State's Chief Financial Officer has a consolidated equipment financing program for State agencies and a lease purchase financing for replacement of the State's accounting and cash management systems, which are subject to annual appropriation. The State's five water management districts have authority to issue bonds secured by certain moneys from the Water Management Lands Trust Fund.

The Florida Water Pollution Control Financing Corporation was created to finance projects through the State's Department of Environmental Protection which are authorized under the federal Clean Water Act. The corporation is authorized to issue bonds secured through the repayment of loans to local government entities. The principal amount of such bonds which may be issued shall not exceed \$300 million in any Fiscal Year.

State of Florida
Debt Outstanding by Type and Program
As of June 30, 2010

(In Million Dollars)

| <u>Debt Type</u> | <u>Amount</u> |
|--|--------------------|
| Net Tax-Supported Debt | \$ 23,557.3 |
| Self-Supporting Debt | 4,610.5 |
| Total State Debt Outstanding | \$ 28,167.8 |
| Net Tax-Supported Debt | |
| Education | |
| Public Education Capital Outlay | \$ 11,230.4 |
| Capital Outlay | 642.7 |
| Lottery | 2,940.4 |
| University System Improvement | 234.4 |
| Community Colleges | 105.8 |
| Total Education | \$ 15,153.7 |
| Environmental | |
| Preservation 2000 / Florida Forever | 2,351.1 |
| Everglades Restoration Bonds | 224.3 |
| Conservation and Recreation | 5.7 |
| Save Our Coast | 10.8 |
| Inland Protection | 95.2 |
| Total Environmental | 2,687.0 |
| Transportation | |
| Right-of-Way Acquisition and Bridge Construction | 1,821.4 |
| State Infrastructure Bank | 24.4 |
| P3 Obligations | 1,694.3 |
| Florida Ports | 282.7 |
| Total Transportation | 3,822.9 |
| Appropriated Debt / Other | |
| Facilities | 394.0 |
| Master Lease | 14.1 |
| FLAIR Lease | 1.5 |
| Energy Saving Contracts | 39.7 |
| Prisons | 721.7 |
| DMS Aircraft Lease | 3.5 |
| Juvenile Justice | 12.7 |
| Children & Families | 126.7 |
| Affordable Housing | 156.2 |
| Sports Facility Obligations | 373.9 |
| Florida High Charter School | 18.6 |
| Lee Moffitt Cancer Center | 31.0 |
| Total Appropriated Debt / Other | 1,893.7 |
| Total Net Tax-Supported Debt Outstanding | \$ 23,557.3 |
| Self-Supporting Debt | |
| Education | |
| University Auxiliary Facility Revenue Bonds | \$ 673.3 |
| Environmental | |
| Florida Water Pollution Control | 323.6 |
| Transportation | |
| Toll Facilities | \$ 3,450.1 |
| State Infrastructure Bank Revenue Bonds | 75.6 |
| Road and Bridge | 88.0 |
| Total Transportation | 3,613.7 |
| Total Self-Supported Debt Outstanding | \$ 4,610.5 |

Source: State of Florida, 2010 Debt Affordability Study.

Per Capita Tax Supported Debt
For Fiscal Years Ended June 30

| <u>Year</u> | <u>Population¹</u> <u>(thousands)</u> | <u>Total Principal</u> <u>Outstanding²</u> <u>(millions)</u> | <u>Per</u> <u>Capita</u> |
|-------------|---|---|-----------------------------|
| 2000 | 15,882 | \$14,117.3 | \$889 |
| 2001 | 16,248 | 14,490.5 | 892 |
| 2002 | 16,588 | 15,421.7 | 930 |
| 2003 | 16,969 | 16,186.1 | 954 |
| 2004 | 17,401 | 16,891.8 | 971 |
| 2005 | 17,816 | 17,455.3 | 980 |
| 2006 | 18,240 | 17,865.6 | 979 |
| 2007 | 18,602 | 18,339.6 | 986 |
| 2008 | 18,783 | 20,328.7 | 1,082 |
| 2009 | 18,767 | 22,372.9 | 1,192 |
| 2010 | 18,761 | 23,557.3 | 1,256 |

¹ Population estimate by the Office of Economic and Demographic Research, Florida Legislature, (November, 2010).

² State of Florida 2010 Debt Affordability Study; excludes refunded debt.

Total State Debt Outstanding As of June 30, 2010

| Fiscal Year | Self-Supporting Debt | | | Net Tax-Supported Debt | | | Total Existing Debt | | |
|-------------|-------------------------|-------------------------|-------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| | Principal | Interest | Total | Principal | Interest | Total | Principal | Interest | Total |
| 2011 | \$ 170,879,034 | \$ 215,835,707 | \$ 386,714,741 | \$ 1,143,432,982 | \$ 1,071,961,693 | \$ 2,215,394,675 | \$ 1,314,312,016 | \$ 1,287,797,400 | \$ 2,602,109,416 |
| 2012 | 193,004,720 | 210,691,731 | 403,696,451 | 1,186,702,306 | 1,023,833,280 | 2,210,535,586 | 1,379,707,026 | 1,234,525,011 | 2,614,232,037 |
| 2013 | 203,978,396 | 201,838,087 | 405,816,483 | 1,245,336,608 | 966,137,726 | 2,211,474,334 | 1,449,315,003 | 1,167,975,814 | 2,617,290,817 |
| 2014 | 252,295,906 | 195,807,037 | 448,102,942 | 1,032,119,942 | 904,281,141 | 1,936,401,083 | 1,284,415,847 | 1,100,088,178 | 2,384,504,025 |
| 2015 | 255,012,226 | 189,235,086 | 444,247,312 | 1,190,504,321 | 854,845,925 | 2,045,350,246 | 1,445,516,547 | 1,044,081,011 | 2,489,597,558 |
| 2016 | 212,693,665 | 174,685,817 | 387,379,482 | 1,137,556,829 | 806,165,812 | 1,943,722,641 | 1,350,250,494 | 980,851,629 | 2,331,102,123 |
| 2017 | 208,804,718 | 163,750,596 | 372,555,314 | 1,164,039,907 | 759,473,418 | 1,923,513,325 | 1,372,844,625 | 923,224,014 | 2,296,068,639 |
| 2018 | 215,841,696 | 153,688,616 | 369,530,312 | 1,179,921,216 | 710,981,422 | 1,890,902,639 | 1,395,762,912 | 864,670,038 | 2,260,432,951 |
| 2019 | 222,207,320 | 143,200,464 | 365,407,784 | 1,149,888,489 | 661,610,716 | 1,811,499,204 | 1,372,095,809 | 804,811,180 | 2,176,906,989 |
| 2020 | 209,864,840 | 132,513,419 | 342,378,259 | 1,147,697,459 | 613,231,115 | 1,760,928,574 | 1,357,562,299 | 745,744,534 | 2,103,306,833 |
| 2021 | 216,040,936 | 122,175,330 | 338,216,266 | 1,167,366,666 | 565,197,422 | 1,732,564,088 | 1,383,407,602 | 687,372,752 | 2,070,780,354 |
| 2022 | 194,602,194 | 111,722,631 | 306,324,825 | 1,182,010,498 | 516,770,236 | 1,698,780,734 | 1,376,612,692 | 628,492,867 | 2,005,105,559 |
| 2023 | 183,088,512 | 102,256,923 | 285,345,435 | 1,154,021,802 | 449,774,241 | 1,603,796,043 | 1,337,110,314 | 552,031,164 | 1,889,141,478 |
| 2024 | 187,199,626 | 93,345,421 | 280,545,047 | 1,058,417,178 | 400,705,035 | 1,459,122,213 | 1,245,616,804 | 494,050,456 | 1,739,667,260 |
| 2025 | 192,584,722 | 84,231,265 | 276,815,987 | 986,212,114 | 345,653,424 | 1,331,865,538 | 1,178,796,836 | 429,884,689 | 1,608,681,525 |
| 2026 | 172,155,144 | 74,887,927 | 247,043,071 | 822,042,190 | 304,125,376 | 1,126,167,566 | 994,197,334 | 379,013,303 | 1,373,210,637 |
| 2027 | 173,278,780 | 66,555,762 | 239,834,542 | 742,839,349 | 269,771,640 | 1,012,610,989 | 916,118,129 | 336,327,402 | 1,252,445,532 |
| 2028 | 139,122,000 | 58,386,844 | 197,508,844 | 664,764,139 | 253,253,588 | 918,017,727 | 803,886,139 | 311,640,432 | 1,115,526,572 |
| 2029 | 129,457,000 | 51,661,925 | 181,118,925 | 576,601,768 | 226,882,724 | 803,484,493 | 706,058,768 | 278,544,649 | 984,603,417 |
| 2030 | 118,934,000 | 45,316,484 | 164,250,484 | 526,960,750 | 205,636,582 | 732,597,332 | 645,894,750 | 250,953,065 | 896,847,816 |
| 2031 | 114,195,000 | 39,275,678 | 153,470,678 | 472,160,607 | 188,474,313 | 660,634,920 | 586,355,607 | 227,749,991 | 814,105,597 |
| 2032 | 114,335,000 | 33,449,101 | 147,784,101 | 459,666,862 | 173,506,247 | 633,173,109 | 574,001,862 | 206,955,348 | 780,957,210 |
| 2033 | 119,695,000 | 27,740,283 | 147,435,283 | 417,587,192 | 158,825,851 | 576,413,043 | 537,282,192 | 186,566,134 | 723,848,325 |
| 2034 | 111,130,000 | 21,761,590 | 132,891,590 | 358,662,682 | 141,316,668 | 499,979,350 | 469,792,682 | 163,078,258 | 632,870,940 |
| 2035 | 95,550,000 | 16,209,428 | 111,759,428 | 329,680,262 | 133,993,584 | 463,673,846 | 425,230,262 | 150,203,012 | 575,433,274 |
| 2036 | 76,145,000 | 11,283,920 | 87,428,920 | 304,701,311 | 128,261,901 | 432,963,211 | 380,846,311 | 139,545,821 | 520,392,131 |
| 2037 | 44,200,000 | 7,359,271 | 51,559,271 | 269,436,777 | 121,407,377 | 390,844,154 | 313,636,777 | 128,766,648 | 442,403,425 |
| 2038 | 33,620,000 | 4,936,385 | 38,556,385 | 171,859,961 | 115,364,166 | 287,224,127 | 205,479,961 | 120,300,551 | 325,780,512 |
| 2039 | 35,190,000 | 2,900,553 | 38,090,553 | 105,358,659 | 106,172,032 | 211,530,691 | 140,548,659 | 109,072,585 | 249,621,243 |
| 2040 | 15,410,000 | 770,500 | 16,180,500 | 53,388,543 | 117,138,060 | 170,526,603 | 68,798,543 | 117,908,560 | 186,707,103 |
| 2041 | - | - | - | 42,364,050 | 93,962,954 | 136,327,004 | 42,364,050 | 93,962,954 | 136,327,004 |
| 2042 | - | - | - | 41,401,452 | 97,826,135 | 139,227,587 | 41,401,452 | 97,826,135 | 139,227,587 |
| 2043 | - | - | - | 41,682,132 | 103,793,053 | 145,475,185 | 41,682,132 | 103,793,053 | 145,475,185 |
| 2044 | - | - | - | 26,596,299 | 64,851,508 | 91,447,807 | 26,596,299 | 64,851,508 | 91,447,807 |
| 2045 | - | - | - | 4,270,710 | 7,746,857 | 12,017,567 | 4,270,710 | 7,746,857 | 12,017,567 |
| | \$ 4,610,515,434 | \$ 2,757,473,780 | \$ 7,367,989,214 | \$ 23,557,254,011 | \$ 13,662,933,222 | \$ 37,220,187,233 | \$ 28,167,769,444 | \$ 16,420,407,002 | \$ 44,588,176,447 |

¹ A Public/Private Partnership obligation of the Department of Transportation is included in net tax-supported debt. The Department of Transportation has assumed the full annual payment obligation; however, certain payments are expected from non-tax sources. For the purpose of showing net-tax supported payments, the payments from other sources have not been considered.
Source: State of Florida 2010 Debt Affordability Report.

Net Tax-Supported Bonds Issued Since July 1, 2010
(chronological, by date of issuance)

| | |
|---|----------------------|
| State Board of Education Lottery Revenue Refunding Bonds, Series 2010D | \$109,750,000 |
| Less: Lottery Revenue Bonds refunded | (126,080,000) |
| State Board of Education Public Education Capital Outlay Refunding Bonds, 2010 Series A | 179,870,000 |
| Less: Public Education Capital Outlay Bonds refunded | (195,180,000) |
| State Board of Education Lottery Revenue Refunding Bonds, Series 2010E | 223,425,000 |
| Less: Lottery Revenue Bonds refunded | (244,845,000) |
| State Board of Education Capital Outlay Bonds, 2010 Series A | 53,405,000 |
| Less: Capital Outlay Bonds refunded | (25,470,000) |
| State Board of Education Public Education Capital Outlay Bonds, 2007 Series H | 167,200,000 |
| State Board of Education Lottery Revenue Refunding Bonds, Series 2010F | 169,830,000 |
| Less: Lottery Revenue Bonds refunded | (182,250,000) |
| State Board of Education Public Education Capital Outlay Bonds, 2008 Series E | 200,000,000 |
| State Board of Education Public Education Capital Outlay Bonds, 2010 Series B | 154,800,000 |
| State Board of Education Public Education Capital Outlay Refunding Bonds, 2011 Series A | 336,750,000 |
| Less: Public Education Capital Outlay Bonds refunded | (360,485,000) |
| State Board of Education Public Education Capital Outlay Refunding Bonds, 2011 Series B | 173,045,000 |
| Less: Public Education Capital Outlay Bonds refunded | (181,715,000) |
| Department of Transportation Right-of-Way Acquisition and Bridge Construction Refunding Bonds, Series 2011A | 114,500,000 |
| Less: Right-of-Way Acquisition and Bridge Construction Bonds | (121,135,000) |
| State Board of Education Public Education Capital Outlay Bonds, 2008 Series F&G | 144,500,000 |
| Less: Public Education Capital Outlay Bonds refunded | (78,510,000) |
| State Board of Education Public Education Capital Outlay Refunding Bonds, 2011 Series C | 220,885,000 |
| Less: Public Education Capital Outlay Bonds refunded | <u>(233,755,000)</u> |
| | \$498,535,000 |

Self Supporting Bonds Issued Since July 1, 2010
(chronological, by date of issuance)

| | |
|--|---------------------|
| Board of Governors Florida State University Mandatory Student Fee Revenue Bonds, Series 2010A | \$31,320,000 |
| Board of Governors Florida State University Dormitory Revenue Bonds, Series 2010A | 18,910,000 |
| Florida Water Pollution Control Financing Corporation Water Pollution Control Revenue Bonds, Series 2010A | 225,000,000 |
| Board of Governors University of North Florida Mandatory Student Fee Revenue Bonds, Series 2010A&B | 15,635,000 |
| Board of Governors Florida State University Parking Facility Revenue Bonds, Series 2011A | 22,145,000 |
| Less: Florida State University Bonds refunded | (6,775,000) |
| Board of Governors University System Improvement Revenue Refunding Bonds, Series 2011A | 38,930,000 |
| Less: University System Improvement Bonds refunded | (42,580,000) |
| Board of Governors University of Florida Clinical Translational Research Building Revenue Bonds, Series 2011 | 29,838,000 |
| Department of Transportation Turnpike Revenue Bonds, Series 2011A | 150,165,000 |
| Less: Turnpike Revenue Bonds refunded | <u>(47,580,000)</u> |
| | \$435,008,000 |

(Remainder of page intentionally left blank)

STATEMENT OF ASSETS AND LIABILITIES

Administered by State Chief Financial Officer

| | ASSETS | |
|--|-----------------------------------|-----------------------------------|
| | <u>JUNE 30, 2011</u> | <u>JUNE 30, 2010</u> |
| Currency and Coins | \$300,000.00 | \$300,000.00 |
| Unemployment Compensation Investments Due From U.S Treasury -Unemployment TF | (1) 68,128,132.17 | 455,037,633.39 |
| Deferred Compensation Assets | (2) 2,628,812,977.50 | 2,206,219,558.43 |
| Bank Accounts | (3) 35,535,100.20 | 46,260,933.63 |
| Consolidated Revolving Account | (4) <u>353,388.20</u> | <u>196,830.41</u> |
| Total Cash, Receivables, and Other Assets | \$2,733,129,598.07 | \$2,708,014,955.86 |
| | | |
| Certificates of Deposit | \$703,100,000.00 | \$1,008,000,000.00 |
| Securities | (5) <u>16,937,893,579.05</u> | <u>17,181,803,960.63</u> |
| Total Investments | <u>\$17,640,993,579.05</u> | <u>\$18,189,803,960.63</u> |
| Total Assets of the Division of Treasury | <u><u>\$20,374,123,177.12</u></u> | <u><u>\$20,897,818,916.49</u></u> |
| | | |
| | LIABILITIES | |
| | <u>JUNE 30, 2011</u> | <u>JUNE 30, 2010</u> |
| General Revenue Fund | \$1,716,090,420.96 | \$2,398,971,129.58 |
| Trust Fund | (6) 9,373,683,133.85 | 9,525,487,126.94 |
| Budget Stabilization Fund | 279,157,304.63 | 274,915,763.40 |
| Total Three Funds | \$11,368,930,859.44 | \$12,199,374,019.92 |
| | | |
| Adjustments | (7) \$12,399,399.68 | \$68,340,290.01 |
| Due to Special Purpose Investment Accounts | (8) 6,363,626,552.30 | 6,423,688,217.72 |
| Due to Deferred Compensation Participants and/or Program | (2) 2,628,812,977.50 | 2,206,219,558.43 |
| Due to Consolidated Revolving Account Agency Participants | (4) <u>353,388.20</u> | <u>196,830.41</u> |
| Total Liabilities of the Division of Treasury | <u><u>\$20,374,123,177.12</u></u> | <u><u>\$20,897,818,916.49</u></u> |

Source: Annual Report of the State Chief Financial Officer for the Fiscal Year Ended June 30, 2011.

- ¹ Unemployment Trust Fund - Represents U.C. Benefit Funds invested by the Federal Government and due from U.S. Treasury.
- ² Includes plan assets held in the Deferred Compensation Trust Fund for the exclusive benefit of participants and their beneficiaries.
- ³ Represents the "Per Reconciled Cash Balance" of \$57,839,769.85 as of June 30, 2011 with receipted items in transit of \$135,750,193.06 and disbursed items in transit of (\$148,611,897.31) which nets to (\$12,861,704.25). These items have cleared the bank but have not been posted to the State ledger. The Total Bank Accounts figure does not include \$11,892,235.98 held in clearing and/or revolving accounts outside the Treasury.
- ⁴ The amount due to agency participants in the Consolidated Revolving Account as of June 30, 2011 is \$7,493,388.20. Of this, \$353,388.20 is in a financial institution account and \$7,140,000.00 is invested in Special Purpose Investment Accounts.
- ⁵ Includes Purchased Interest in the amount of \$2,220,616.26.
- ⁶ Included in the Trust Fund Balance is \$5,144,823,903.72 earning interest for the benefit of Trust Funds, Unemployment Trust Fund balance of \$68,128,132.17, and the remaining balance of \$4,160,731,097.96 earning interest for General Revenue.
- ⁷ Represents \$8,109,119.68 interest not yet receipted to State Accounts and Securities Liability Cost of \$4,290,280.00 which settles July 1, 2011.
- ⁸ Represents Chief Financial Officer's Special Purpose Investment Accounts held in the Treasury Investment Pool and interest due to those accounts. The Chief Financial Officer's Special Purpose Investment Accounts are investments on behalf of state agencies with funds outside the Chief Financial Officer's Cash Concentration System and other statutorily created entities.

| | | |
|--|----------------------|----------------------|
| Note: | <u>June 30, 2011</u> | <u>June 30, 2010</u> |
| Total Market Value of all Securities held by the Treasury. | \$17,842,226,955.49 | \$18,439,474,089.39 |

FLORIDA RETIREMENT SYSTEM

(Source: Florida Department of Management Services, Division of Retirement)

The Florida Retirement System (FRS) provides retirement, disability and death benefits for participating public employees. The FRS is a cost-sharing, multiple employer, retirement plan. The FRS Defined Benefit Program (also referred to as the FRS Pension Plan) is administered by the Division of Retirement in the Department of Management Services. The Public Employee Optional Retirement Program (also referred to as the FRS Investment Plan), is the defined contribution plan alternative to the FRS Pension Plan, is administered by the State Board of Administration. In addition to these two primary, integrated programs there are non-integrated defined contribution plan alternatives available to targeted employee groups in the State University System, the State Community College System, and members of the Senior Management Service Class.

FRS membership is compulsory for employees working in regularly established positions for a state agency, county governmental unit, district school board, state university, state community college or participating city, independent special district, charter school or metropolitan planning district. There are five classes of plan membership: Regular Class, Special Risk Class, Special Risk Administrative Support Class, Elected Officers' Class ("EOC"), and Senior Management Service Class ("SMSC"). Elected officials who are eligible to participate in the EOC may elect to withdraw from the FRS altogether or to participate in the SMSC in lieu of the EOC. Regular Class membership covers any position that is not designated to participate in any other membership class.

Participation by cities, municipalities, special districts, charter schools, and metropolitan planning districts although optional, is generally irrevocable once the election to participate is made. As of June 30, 2010, there were 976 participating employers, and 1,080,678 individual participants, as follows:

| | |
|--------------------------------------|----------------------|
| Retirees & Beneficiaries | 302,978 ¹ |
| Terminated Vested Participants | 88,756 |
| DROP Participants | 33,577 |
| Active Vested Participants | 477,386 |
| Active Non-vested Participants | <u>177,981</u> |
| TOTAL | 1,080,678 |

¹ Excludes Teachers' Retirement System Survivors' Benefit ("TRS-SB"), General Revenue payment recipients and FRS Investment Plan members who received a distribution.

FRS Pension Plan members receive one month of service credit for each month in which any salary is paid. Members vest after 6 years for service retirement benefits for all membership classes. Members vest after 8 years for non-duty related disability benefits. After they are vested, members are eligible for normal retirement when they have met the minimum age or service requirements for their membership class, which is age 62, or 30 years of service regardless of age for the Regular Class, SMSC and the EOC. Normal retirement for members of the Special Risk Class and the Special Risk Administrative Support Class, after becoming vested, is age 55, or 25 years of service regardless of age. Early retirement may be taken any time after vesting subject to a 5% benefit reduction for each year prior to normal retirement age.

Retirement benefits under the FRS Pension Plan are computed on the basis of age and/or years of service, average final compensation and service credit. **The State Constitution prohibits increasing benefits without concurrently providing for funding the increase on a sound actuarial basis.**

FRS Pension Plan members who reach normal retirement may participate in the Deferred Retirement Option Program (DROP), a program which allows a member to retire and continue employment for up to 60 months while the member's benefits accumulate in the FRS Trust Fund, earning monthly interest at an equivalent annual rate of 6.50 percent. At termination the member's DROP accumulation may be paid out as a lump sum, a rollover, or a combination of these two payout methods.

FRS Investment Plan members have employer contributions submitted to the investment providers chosen from those offered under the plan. FRS Investment Plan members receive one month of service credit for each month in which any salary is paid. Members vest after one year for service under the FRS Investment Plan. If a present value amount is transferred from the FRS Pension Plan to the member's FRS Investment Plan account, the member must meet the six-year vesting requirement for any such transferred funds and associated earnings.

FRS Investment plan members vest after eight years for non-duty related disability benefits and may elect to surrender their account balance to the FRS Trust Fund to receive guaranteed monthly benefits under the FRS Pension Plan. Or, FRS Investment Plan members may retain their account balance to fund their future retirement needs in lieu of guaranteed monthly benefits under the FRS Pension Plan. After they are vested and upon termination, FRS Investment Plan members may leave their funds invested in the plan, receive a lump-sum payment of their account balance, or rollover their monies into another eligible plan qualified under the Internal Revenue Code.

The retirement benefits of members under the FRS Investment Plan are determined by their account balances at the time they choose to retire after termination. FRS Investment Plan members may structure periodic benefit payments under their investment contracts, rollover their funds to a different qualified plan, or receive a lump-sum payment representing their account balance in part or in whole.

SMSC members; State University System faculty, Executive Service staff, and Administrative and Professional Service staff; and State Community College System faculty and certain administrators may elect to participate in the existing, non-integrated optional defined contribution programs for these targeted employee groups instead of either of the two primary integrated programs offered under the FRS, the FRS Pension Plan and the FRS Investment Plan.

Employers pay all required contributions. The contribution rates for the FRS Investment Plan are set by statute and the FRS Pension Plan rates, which are determined annually based on an actuarial evaluation, are also adopted by the legislature. (See "Schedule of Funding Progress" below). These two rates are "blended" to create the uniform contribution rate for the primary, integrated FRS programs as required under Part III of Chapter 121, F.S. FRS employers pay a single rate for members of the two primary, integrated FRS plans. The required FRS Investment Plan

rate is forwarded to the FRS Investment Plan's third party administrator and the balance is forwarded to the FRS Pension Plan.

The employer contribution rates for the non-integrated defined contribution plans are set by statute and forwarded to the specified provider company under the program. As of June 30, 2010, FRS actuarial determinations are based on the following:

| | |
|--|-------------------------------|
| Actuarial Cost Method: | Entry Age Normal |
| Amortization method: | Level Percentage of Pay, Open |
| Equivalent Single amortization period: | 30 years ¹ |
| Asset valuation method: | 5-year Smoothed Method |
| Investment rate of return: | 7.75% |
| Projected salary increases: | 5.85% ² |
| Inflation level: | 3.00% |
| Cost of living adjustments: | 3.00% |

¹ Used for GASB Statement #27 reporting purposes.

² Includes individual salary growth of 4.00 percent plus an age- and service-graded merit scale defined by gender and employment class. See Table A-2 of the July 1, 2010 actuarial valuation report for merit scale.

The Florida Retirement System Trust Funds assets are invested by the State Board of Administration. The assumed rate of investment return for Fiscal Year 2009-10 was 7.75 percent, with the actual return calculated on the basis of fair value which was 14.03 percent. As of June 30, 2010, the Florida Retirement System Trust Fund was valued at \$109.34 billion (market value), and invested in the classes and

approximate percentages as follows:

| | |
|-------|-------------------------|
| 35.6% | Domestic Equities |
| 18.9% | Foreign Equities |
| 28.5% | Fixed Income |
| 2.0% | High Yield |
| 6.4% | Real Estate |
| 4.1% | Alternative Investments |
| 4.1% | Strategic Investments |
| 0.4% | Cash |

For additional information, see the Florida Retirement System Pension Plan Annual Report under the "System Information" tab of the "Publications" page on their website at: <http://frs.myflorida.com> or contact the Division of Retirement, P.O. Box 9000, Tallahassee, Florida 32315-9000.

For a discussion of investment policies, see "MISCELLANEOUS - Investment of Funds - Investment by the Board of Administration" in the body of this Official Statement.

Financial statements are prepared using the accrual basis of accounting, and reporting is done in accordance with Government Accounting Standards Board requirements.

Annuitants and Annualized Benefit Payments Under the FRS Pension Plan

(in thousands where amounts are dollars)

| <u>Fiscal Year</u> | <u>2005-06¹</u> | <u>2006-07¹</u> | <u>2007-08²</u> | <u>2008-09²</u> | <u>2009-10²</u> |
|---------------------------------|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|
| Annuitants | 250,496 | 263,198 | 276,252 | 289,602 | 302,978 |
| Benefits Payments (000 omitted) | \$3,791,807 | \$4,127,517 | \$4,488,653 | \$4,878,227 | \$5,299,541 |
| Average Benefits | \$15,137 | \$15,682 | \$16,248 | \$16,845 | \$17,492 |

Source: Florida Department of Management Services, Division of Retirement. Florida Retirement System Annual Reports for Fiscal Years 2005-06 through 2009-10.

¹ Excludes FRS Investment Plan, General Revenue, Institute of Food and Agricultural Sciences Supplemental Program and TRS-SB recipients and payments, as well as DROP participants, payouts and accrued benefits.

² Excludes FRS Investment Plan, General Revenue, and TRS-SB recipients and payments, as well as DROP participants, payouts and accrued benefits.

Schedule of Funding Progress

Actuarial Value of Assets

(thousands of dollars)

| <u>Actuarial Valuation Date</u> | <u>Actuarial Value of Assets (a)</u> | <u>Actuarial Accrued Liability (AAL) Entry Age (b)</u> | <u>Unfunded AAL (UAAL) (b-a)</u> | <u>Funded Ratio (%) (a/b)</u> | <u>Annualized Covered Payroll¹ (c)</u> | <u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u> |
|---------------------------------|--------------------------------------|--|----------------------------------|-------------------------------|---|--|
| July 1, 2001 | 95,517,948 | 80,993,718 | (14,524,230) | 117.93% | 21,360,862 | (68.00)% |
| July 1, 2002 | 99,405,677 | 86,469,774 | (12,935,903) | 114.96 | 22,195,184 | (58.28) |
| July 1, 2003 | 101,906,723 | 89,251,331 | (12,655,392) | 114.18 | 22,270,807 | (56.83) |
| July 1, 2004 | 106,707,426 | 95,185,433 | (11,521,993) | 112.10 | 23,115,581 | (49.85) |
| July 1, 2005 | 111,539,878 | 103,925,498 | (7,614,380) | 107.33 | 24,185,983 | (31.48) |
| July 1, 2006 | 117,159,615 | 110,977,831 | (6,181,784) | 105.57 | 25,327,922 | (24.41) |
| July 1, 2007 | 125,584,704 | 118,870,513 | (6,714,191) | 105.65 | 26,385,768 | (25.45) |
| July 1, 2008 | 130,720,547 | 124,087,214 | (6,633,333) | 105.35 | 26,891,340 | (24.67) |
| July 1, 2009 | 118,764,692 | 136,375,597 | 17,610,905 | 87.09 | 26,573,196 | 66.27 |
| July 1, 2010 | 120,929,666 | 139,652,377 | 18,722,711 | 86.59 | 25,765,362 | 72.67 |

Source: Florida Department of Management Services, Division of Retirement, Florida Retirement System Annual Reports.

¹ Includes DROP payroll.

Schedule of Funding Progress
Market Value of Assets
(thousands of dollars)

| Fiscal Year | Market Value of Assets¹ (a) | Actuarial Accrued Liability (AAL) Entry Age² (b) | Unfunded AAL (UAAL) (b-a) | Funded Ratio (%) (a/b) | Annualized Covered Payroll³ (c) | UAAL as a Percentage of Coverage Payroll (b-a)/c) |
|--------------------|---|--|--|---|---|--|
| 2001 | \$98,206,820 | 80,993,718 | (17,213,102) | 121.25% | 21,360,862 | (80.58)% |
| 2002 | 89,529,016 | 86,469,774 | (3,059,242) | 103.54 | 22,195,184 | (13.78) |
| 2003 | 90,416,381 | 89,251,331 | (1,165,050) | 101.31 | 22,270,807 | (5.23) |
| 2004 | 102,409,370 | 95,185,433 | (7,223,937) | 107.59 | 23,115,581 | (31.25) |
| 2005 | 109,875,206 | 103,925,498 | (5,949,708) | 105.72 | 24,185,983 | (24.60) |
| 2006 | 118,354,931 | 110,977,831 | (7,377,100) | 106.65 | 25,327,922 | (29.13) |
| 2007 | 136,280,545 | 118,870,513 | (17,410,032) | 114.65 | 26,385,768 | (65.98) |
| 2008 | 126,936,897 | 124,087,214 | (2,849,683) | 102.30 | 26,891,340 | (10.60) |
| 2009 | 99,579,208 | 136,375,597 | 36,796,389 | 73.02 | 26,573,196 | 138.47 |
| 2010 | 109,344,318 | 139,652,377 | 30,308,059 | 78.30 | 25,765,362 | 117.63 |

¹ Source: State Board of Administration of Florida. Market value is determined as of June 30 of each Fiscal Year.

² Source: Florida Department of Management Services, Division of Retirement, Florida Retirement System Annual Reports. Actuarial Accrued Liability is determined as of the July 1 immediately after the end of each Fiscal Year.

³ Includes DROP payroll. Source: Florida Department of Management Services, Division of Retirement, Florida Retirement System Annual Reports.

The following table shows employer contributions to the FRS Pension Fund for Fiscal Years 2001 through 2010.

Employer Contributions to the FRS Pension Fund
(thousands of dollars)

| Fiscal Year | State Contributions | Non-State Contributions | Total Contributions | Annual Required Contributions¹ | Percent Contributed |
|--------------------|----------------------------|--------------------------------|----------------------------|--|----------------------------|
| 2001 | \$540,343 | \$1,510,668 | \$2,051,012 | \$1,869,731 | 109.69% |
| 2002 | 449,383 | 1,328,549 | 1,777,932 | 1,825,485 | 97.39 |
| 2003 | 372,226 | 1,429,785 | 1,802,012 | 1,844,203 | 97.71 |
| 2004 | 435,254 | 1,464,128 | 1,899,382 | 2,044,540 | 92.90 |
| 2005 | 519,531 | 1,669,084 | 2,188,615 | 2,141,862 | 102.18 |
| 2006 | 538,498 | 1,781,878 | 2,320,376 | 2,193,928 | 105.76 |
| 2007 | 671,356 | 2,366,330 | 3,037,687 | 2,455,255 | 123.72 |
| 2008 | 672,485 | 2,520,215 | 3,192,700 | 2,612,672 | 122.20 |
| 2009 | 678,777 | 2,556,630 | 3,235,407 | 2,535,854 | 127.59 |
| 2010 ² | 687,182 | 2,463,392 | 3,150,574 | 2,447,374 | 128.73 |

Source: Florida Department of Management Services, Division of Retirement, Florida Retirement System Annual Reports.

¹Annual Required Contributions are determined by the actuarial valuation of the FRS Pension Fund.

²Preliminary, subject to change.

2011 Legislation Affecting FRS Benefits.

Chapter 2011-68, Laws of Florida, became law on July 1, 2011. Chapter 2011-68 provides for significant reforms to the FRS, most notably by requiring that FRS members contribute to the FRS and by establishing a "two-tier" benefit system with less generous benefits for employees who became members of the FRS on or after July 1, 2011 ("Tier 2 Employees"), as compared to those provided to employees who were members of the FRS prior to July 1, 2011 ("Tier 1 Employees"). Among other changes, Chapter 2011-68 provides:

Employee Contributions -

- Effective July 1, 2011, FRS members must contribute 3% of their salary as retirement contributions, on a pre-tax basis, and the employer will automatically deduct the employee contributions

- Members participating in DROP and re-employed retirees who are not allowed to renew membership will not be required to make 3% contributions

DROP -

- Members with an effective DROP begin date on or before June 2011 will retain an annual interest rate of 6.5%
- The annual DROP interest rate will be 1.3% for members whose DROP participation begins on or after July 1, 2011

Cost-of-Living Adjustment (COLA) -

- Members with an effective retirement date before August 1, 2011 will not have a change in their 3% COLA
- Members with an effective retirement date on or after August 1, 2011 will have an individually calculated COLA that is a reduction from 3% and will be calculated by dividing the total years of service before July 1, 2011 by the total years of service at retirement, and then multiplying the result by 3% to get the retiree's COLA
- For members of the Special Risk Class, to
 - The first day of the month the member reaches age 60 (rather than 55) and is vested, or
 - The first day of the month following the month the member completes 30 (rather than 25) years of creditable service in the Special Risk Class, regardless of age before age 60, or
 - The first day of the month following the month the member reaches age 57 (rather than 52) and completes 30 (rather than 25) years of creditable service comprised of Special Risk Class serve and up to 4 years wartime military service purchased under Section 121.111, Florida Statutes.

Changes for members first enrolled in the FRS on or after July 1, 2011 -

- Increases the number of completed years of creditable service required to become vested for FRS Pension Plan benefit eligibility from 6 to 8 years
- The average final compensation used in calculating retirement benefits will be the highest 8 (rather than the highest 5) fiscal years of salary
- Changes the "normal retirement date"
 - For members of the Regular Class, Senior Management Service Class and Elected Officers Class, to
 - The first day of the month the member reaches age 65 (rather than 62) and is vested, or
 - The first day of the month following the month the member completes 33 (rather than 30) years of creditable service, regardless of age before age 65

(This portion intentionally left blank)

RETIREE HEALTH INSURANCE SUBSIDY AND OTHER POSTEMPLOYMENT BENEFITS

(The information contained under the heading "RETIREE HEALTH INSURANCE SUBSIDY AND OTHER POSTEMPLOYMENT BENEFITS" has been obtained from the State of Florida's Comprehensive Annual Financial Reports except as otherwise indicated.)

Retiree Health Insurance Subsidy Program

The Retiree Health Insurance Subsidy (HIS) Program is a cost-sharing multiple-employer defined benefit pension plan established under Section 112.363, F.S. The benefit is a monthly payment to assist retirees of state-administered retirement systems in paying their health insurance costs and is administered by the Division of Retirement within the Department of Management Services. For the fiscal year ended June 30, 2010, eligible retirees and beneficiaries received a monthly HIS payment equal to the number of years of creditable service completed at the time of retirement multiplied by \$5. The payments are at least \$30 but not more than \$150 per month, pursuant to Section 112.363, F.S. To be eligible to receive a HIS benefit, a retiree under a state-administered retirement system must provide proof of health insurance coverage, which can include

Medicare. The HIS Program is funded by required contributions from FRS participating employers as set by the Legislature. Employer contributions are a percentage of gross compensation for all active FRS members. For the fiscal year ended June 30, 2010, the statutorily required contribution rate was 1.11% of payroll pursuant to Section 112.363, F.S. The State has contributed 100% of its statutorily required contributions for the current and preceding two years. HIS contributions are deposited in a separate trust fund from which HIS payments are authorized. HIS benefits are not guaranteed and are subject to annual legislative appropriation. In the event the legislative appropriation or available funds fail to provide full subsidy benefits to all participants, the legislature may reduce or cancel HIS payments.

Information relating to the statutorily required State contribution, benefits paid and the resulting trust fund assets is shown below, for Fiscal Years ending June 30.

Retiree Health Insurance Subsidy Program Information
(in thousands where amounts are dollars)

| | <u>2006</u> | <u>2007</u> | <u>2008</u> | <u>2009</u> | <u>2010</u> |
|-----------------------|-------------|-------------|-------------|-------------|-------------|
| Recipients | 220,757 | 232,406 | 244,390 | 256,452 | 269,999 |
| Contributions | \$301,748 | \$326,052 | \$334,819 | \$341,569 | \$332,023 |
| Benefits Paid | \$275,603 | \$290,656 | \$305,682 | \$321,742 | \$338,892 |
| Trust Fund Net Assets | \$192,467 | \$238,353 | \$275,139 | \$294,547 | \$291,459 |

Beginning with Fiscal Year 2006-07, the Department of Management Services has obtained biennial actuarial valuations of assets and liabilities of the HIS Program, and actuarially determined Annual Required Contributions for the HIS Program.

HIS actuarial determinations are based on the following:

| | |
|--|-------------------------------|
| Valuation Date: | July 1, 2010 |
| Actuarial Cost Method: | Entry Age Normal |
| Amortization method: | Level Percentage of Pay, Open |
| Equivalent Single amortization period: | 30 years ¹ |
| Asset valuation method: | Market Value |
| Actuarial Assumptions: | |
| Investment rate of return: | 4.00% |
| Projected salary increases: | 5.85% ² |
| Inflation level: | 3.00% |
| Cost of living adjustments: | 0.00% |

Source: Florida Department of Management Services, Division of Retirement.

¹ Used for GASB Statement #27 reporting purposes.

² Includes individual salary growth of 4.00 percent plus an age- and service-graded merit scale defined by gender and employment class. See Table A-2 of the July 1, 2010 actuarial valuation report for merit scale.

Retiree Health Insurance Subsidy Program Schedule of Funding Progress
(thousands of dollars)

| <u>Actuarial Valuation Date</u> | <u>Actuarial Value of Assets (a)</u> | <u>Actuarial Accrued Liability (AAL) Entry Age (b)</u> | <u>Unfunded AAL (UAAL) (b-a)</u> | <u>Funded Ratio (a/b)</u> | <u>Annualized Covered Payroll ¹ (c)</u> | <u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u> |
|---|--|--|--|-----------------------------------|--|--|
| July 1, 2006 | \$192,808 | \$4,667,058 | \$4,474,250 | 4.13% | \$27,712,320 | 16.15% |
| July 1, 2008 | \$275,139 | \$5,109,683 | \$4,834,544 | 5.38% | \$30,665,477 | 15.77% |
| July 1, 2010 | \$291,459 | \$8,464,530 ² | \$8,173,071 | 3.44% | \$31,717,281 | 25.77% |

Source: State of Florida Comprehensive Annual Financial Reports and Florida Department of Management Services, Division of Retirement.

¹ Includes DROP and PEORP payroll.

² The actuarially assumed investment rate of return decreased from 7.75% to 4.00%, resulting in an increase in the actuarially accrued liability.

Schedule of Employer Contributions
(thousands of dollars)

| Fiscal Year Ended <u>June 30</u> | Annual Required <u>Contribution (ARC)¹</u> | <u>Actual Contribution</u> | <u>Contribution as a Percentage of ARC</u> |
|-------------------------------------|--|----------------------------|--|
| 2006 | N/A ² | \$301,748 | N/A |
| 2007 | \$363,175 | \$326,052 | 90% |
| 2008 | \$391,847 | \$334,819 | 85% |
| 2009 | \$395,256 | \$341,569 | 86% |
| 2010 | \$409,546 | \$332,023 | 81% |

Source: State of Florida Comprehensive Annual Financial Reports and Florida Department of Management Services, Division of Retirement.

¹ The Annual Required Contribution is the actuarially determined cost of the benefits allocated to the current year, consisting of the normal cost, that is the portion of the actuarial present value of the benefits and expenses which is allocated to a valuation year, and a payment to amortize the unfunded actuarial accrued liability.

² First valuation completed July 1, 2006, which determined ARC for Fiscal Year 2006-07.

Other Postemployment Benefits (OPEB)

The following is based on the actuarial valuation as of July 1, 2009 of the State Employees' Health Insurance Program.

Plan Description

The State implicitly subsidizes the healthcare premium rates paid by retirees by allowing them to participate in the same group health plan offered to active employees. Although retirees pay 100% of the premium amount, the premium cost to the retiree is implicitly subsidized due to increasing health care costs with age and the commingling of the claims experience in a single risk pool with a single premium determination for active employees and retirees under age 65. Section 110.123, F.S., authorizes the offering of health insurance benefits to retired state and university employees. Section 112.0801, F.S., requires all public employers that offer benefits through a group insurance plan to allow their retirees to continue participation in the plan. The law also requires the claims experience of the retirees under 65 group to be combined with the claims experience of active employees for premium determination and the premium offered to retired employees to be no more than the premium applicable to active employees. Retirees under age 65 pay the same premium amounts as applicable to active employees. Retirees over age 65 are included in the overall risk pool but pay a lesser premium amount than is applicable to active employees because the plan is secondary payer to Medicare Parts A and B. The State Employees' Group Health Insurance Program (Program) operates as a cost-sharing multiple-employer defined benefit health plan; however, current administration of the Program is not through a formal trust and therefore disclosure requirements are those applicable to an agent multiple-employer plan. The Division of State Group Insurance within the Department of Management Services is designated by Section 110.123, F.S., to be responsible for all aspects of the purchase of healthcare for state and university employees and retirees under the Program. There are eighteen participating employers including the

primary government of the state, the eleven state universities, and other governmental entities. There was an average enrollment of 177,197 contracts including 35,588 retirees and 141,609 employees and COBRA participants for Fiscal Year 2009-10. Employees must make an election to participate in the plan within 31 days of the effective date of their retirement to be eligible to continue in the plan as a retiree. Four types of health plans are offered to eligible participants: a standard statewide Preferred Provider Organization (PPO) Plan, a Health Investor PPO Plan, a standard Health Maintenance Organization (HMO) Plan, and a Health Investor HMO Plan. HMO coverage is available only to those retirees who live or work in the HMO's service area. The four PPO and HMO options are considered managed-care plans and have specific provider networks.

Funding Policy

Benefit provisions are described by Section 110.123, F.S., and along with contributions, can be amended by the Florida Legislature. The state has not advance-funded OPEB costs or the net OPEB obligation. The Self-Insurance Estimating Conference develops official information for determining the budget levels needed for the state's planning and budgeting process. The Governor's recommended budget and the General Appropriations Act provide for a premium level necessary for funding the program each year on a pay-as-you-go basis.

Monthly premiums, through May 2010 coverage, for active employees and retirees under the age of 65 for the standard plan were \$498.68 and \$1,127.74 for single and family contracts, respectively. Retirees over the age of 65 pay premiums for a Medicare supplement. Monthly premiums, through May 2010 coverage, for the standard Preferred Provider Organization Plan were \$264.78 for a single contract, \$529.56 for two Medicare eligible members, and \$763.46 when only one member is Medicare eligible.

Actuarially-Determined Annual OPEB Cost and Net OPEB Obligation as of June 30, 2010 (dollars in thousands):

| | |
|--|------------------|
| Annual Required Contribution (ARC) | \$254,754 |
| Interest on the Net OPEB Obligation | 5,856 |
| Adjustments to the ARC | <u>(4,879)</u> |
| Annual OPEB Cost | 255,731 |
| Employer Contribution | <u>(82,375)</u> |
| Increase/Decrease in the Net OPEB Obligation | 173,356 |
| Net OPEB Obligation - July 1, 2009 | <u>146,394</u> |
| Net OPEB Obligation - July 1, 2010 | <u>\$319,750</u> |
| Percent of annual OPEB cost contributed | 32.21% |

Funded Status The funded status of the plan as of June 30, 2010, was as follows (dollars in thousands):

| | |
|--|--------------------|
| Actuarial valuation date | July 1, 2009 |
| Actuarial accrued liability (AAL)* | \$3,742,846 |
| Actuarial value of plan assets | - |
| Unfunded actuarial accrued liability (UAAL) | <u>\$3,742,846</u> |
| Actuarial value of assets as a percentage of the AAL | 0.00% |
| Covered payroll | \$4,639,396 |
| UAAL as a percentage of covered payroll | 80.68% |

*Forecasted for June 30, 2010 from the July 1, 2009 valuation.

Other Postemployment Benefits Schedule of Funding Progress*
(thousands of dollars)

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) Entry Age (b) | Unfunded AAL (UAAL) (b-a) | Funded Ratio (a/b) | Annualized Covered Payroll (c) | UAAL as a Percentage of Covered Payroll ((b-a)/c) |
|--------------------------|-------------------------------|---|---------------------------|--------------------|--------------------------------|---|
| July 1, 2007 | -- | \$3,081,834 | \$3,081,834 | 0.00% | \$6,542,945 | 47.10% |
| July 1, 2008 | -- | \$2,848,428 | \$2,848,428 | 0.00% | \$6,492,858 | 43.87% |
| July 1, 2009 | -- | \$4,831,107 | \$4,831,107 | 0.00% | \$7,318,965 | 66.01% |
| July 1, 2010 | -- | \$4,545,845 | \$4,545,845 | 0.00% | N/A | N/A |

Source: State of Florida Comprehensive Annual Financial Reports and Florida Department of Management Services, Division of State Group Insurance.

* This information relates to the cost-sharing plan as a whole, of which the State of Florida is one participating employer. The State of Florida's participation in the actuarial accrued liability is approximately 77%.

Schedule of Employer Contributions¹
(thousands of dollars)

| Fiscal Year Ended June 30 | Annual Required Contribution (ARC) ² | Actual Contribution as a Percentage of ARC |
|---------------------------|---|--|
| 2008 | \$200,973 | 43.70% |
| 2009 | \$186,644 | 54.36% |
| 2010 | \$336,419 | 30.87% |

¹ This information relates to the cost-sharing plan as a whole, of which the State's of Florida is one participating employer. The State of Florida's participation in the annual required contribution is approximately 77%.

² The Annual Required Contribution is the actuarially determined cost of the benefits allocated to the current year, consisting of the normal cost, that is the portion of the actuarial present value of the benefits and expenses which is allocated to a valuation year, and a payment to amortize the unfunded actuarial accrued liability.

Actuarial Methods and Assumptions

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

Actuarial calculations reflect a long-term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

The entry age actuarial cost method was used for the actuarial valuation as of July 1, 2009. This method allocates the value of a member's benefit as a level percentage of pay between entry age and retirement age. Allocating costs as a level percentage of pay, even though the benefits are not pay-related, helps with budgeting for these employee benefits costs as a percentage of payroll. Actuarial assumptions included a 3% inflation rate, a 4% return on invested assets, and a 4% payroll growth rate. An initial healthcare cost trend rate for the Preferred Provider Organization (PPO) Plans and the Health Maintenance Organization (HMO) Plans of 10.32% and 10.0%, respectively, grading to 5.10% over the course of 70 years. The unfunded actuarial accrued liability is being amortized as a level percentage of pay - on an open basis, over a 30 year period.

UNEMPLOYMENT COMPENSATION TRUST FUND

The Federal-State Unemployment Insurance Program provides benefits to eligible unemployed individuals. The program is funded by employers through a tax on payrolls by both the state and federal governments. Due to the record level of unemployment in Florida, the State's Unemployment Compensation Trust Fund (the "Fund") has been paying out more for unemployment benefits than it has been collecting in taxes from employers. To address this shortfall and fund its unemployment compensation program, Florida began taking advances from the U.S. Treasury in August 2009. The balance of federal advances at the end of Fiscal Year 2009-10 was \$1.6 billion. The February 2011 REC estimated that the balance of federal advances would be \$1.8 billion and \$1.4 billion at the end of Fiscal Years 2010-11 and 2011-12, respectively. However, in June 2011, after considering (1) actual tax collections and benefits paid from January 2011 through May 2011, and (2) the anticipated effects of changes to the State's unemployment compensation laws enacted during the 2011 legislative session, the estimated year-end balance of federal advances was decreased for fiscal years 2010-11 and 2011-12 to \$1.6 billion and \$0.8 billion, respectively. It is projected that the State will begin replenishing the Fund during fiscal year 2012-13, with an estimated balance of approximately \$549 million in the Fund at fiscal year end.

Foreseeing the Fund deficit, the 2009 Florida Legislature passed a law that increased the taxable wage base from \$7,000 to \$8,500 for calendar years 2010-2014. The law also increased the positive adjustment tax rate factor (low trigger) from 3.75% to 4.0%. With this change, when the Fund balance drops below 4.0% of the total taxable state payrolls as of June 30th, an adjustment factor is triggered to increase the employer contribution rates that will become effective the following January 1st. In 2010, due to the increased burden the 2009 legislation would place on Florida employers during a severe recession, the Florida Legislature passed legislation that suspends the 2009 amendments until January 1, 2012. Despite the amendment deferral, as a result of increases in unemployment benefits paid and increases in the number of employers at the maximum unemployment tax rate, the minimum unemployment tax rate increased in January 2011 from .0036 to .0103 (or from \$25.20 to \$72.10 per employee).

Interest on the federal advances is set once a year at the lesser of 10% or the rate interest was paid on the state reserve balance in the federal Unemployment Trust Fund ("UTF") for the last quarter of the preceding calendar year. That interest rate is equal to the average rate of interest, paid on all interest-bearing obligations of the United States as part of the public debt; except that where such average rate is not a multiple of 1/8 of 1%, the rate shall be the multiple of 1/8% next lower than such average rate. The federal

interest rate on UTF loans to states in 2009 and 2010 was 4.64% and 4.36%, respectively, and is set at 4.09% for 2011. Typically, interest is due and payable on September 30 of the fiscal year in which the loans were made, except states with an average total unemployment rate of 13.5% or higher for the most recent 12-month period may delay payment for 9 months, and states with an insured unemployment rate of 7.5% or higher for the first six months of the preceding calendar year may pay in four equal annual installments. In any year that the State fails to pay interest due by the date required, employers in the State will lose the entire federal offset credit (5.4%) and the State will lose all grants for the cost of administration of the program. However, the American Recovery and Reinvestment Act waived all interest accrual on loans to states from the federal UTF through December 31, 2010.

On January 1, 2011, Florida began accruing interest on the outstanding balance due to the federal government, with the first interest payment due September 30, 2011. The February 2011 Revenue Estimating Conference estimated that the September 2011 interest due will be \$57.7 million. Interest payments may not be made from the Fund or by diverting state Unemployment Compensation taxes; rather, interest must be paid from other sources of State money. Accordingly, the 2010 Florida Legislature passed a law requiring an assessment of an additional rate on contributing Florida employers for the purpose of paying interest due on federal advances. The additional rate shall be assessed no later than February 1 in each calendar year in which an interest payment is due. The additional rate is based upon the formula set forth in section 433.131(5)(b), Florida Statutes, which takes into account the Revenue Estimating Conference's estimate of interest due on the following September 30. Florida employers have been assessed accordingly for 2011.

In addition to interest, Florida must repay the principal amount of the federal advances. This will likely result in increased taxes and/or decreased federal tax credits on Florida employers. If a state has had an outstanding loan balance on January 1 for two consecutive years and does not repay the full balance by November 10 of the second year, the federal tax credit given to employers is decreased by at least .3% for each year in which the loan is not repaid. Therefore, because Florida had a loan balance on January 1, 2010 and January 1, 2011, the loan must be repaid by November 10, 2011 to avoid a decrease in the federal tax credit available to Florida employers. Florida employers will most likely experience a partial loss of the federal tax credit beginning on January 1, 2012, with payments through the loss of the credit estimated at \$154 million, and \$317 million in Fiscal Years 2011-12 and 2012-13, respectively.

[This page intentionally left blank]

DEFINITIONS

“Additional Bonds” means any obligations hereafter issued pursuant to the terms and conditions of the Resolution and payable from the Pledged Revenues on a parity with the initial Series of State Board of Education Lottery Revenue Bonds originally issued thereunder. Such Additional Bonds shall be deemed to have been issued pursuant to the Resolution the same as the Bonds originally authorized and issued pursuant to the Resolution, and all of the applicable covenants and other provisions of the Resolution (except as to details of such Additional Bonds inconsistent therewith), shall be for the equal benefit, protection and security of the Registered Owners of the Bonds originally authorized and issued pursuant to the Resolution, and the Registered Owners of any Additional Bonds evidencing additional obligations subsequently issued within the limitations of and in compliance with the Resolution. All of such Additional Bonds, regardless of the time or times of their issuance shall rank equally with other Bonds with respect to their lien on and source and security for payment from the Pledged Revenues without preference or priority of any Bond over any other.

“Administrative Expenses” means, with respect to the Bonds or the administration of any funds under the Resolution, to the extent applicable: (i) reasonable fees or charges, or both, of the Board and the Division; and (ii) such other reasonable fees or charges, or both, as may be approved by the Board or the Division, including, but not limited to, those relating to tax law compliance, disclosure of information, paying agents, rating agencies and providers of credit enhancement; all as may be determined from time to time as necessary.

“Annual Debt Service Requirement” means, at any time, the amount of Pledged Revenues (with respect to the particular Series of Bonds, or all Bonds, as the case may be) required to be deposited in the then current Fiscal Year into the Debt Service Account for the payment of interest, maturing principal and the scheduled redemption of Term Bonds and, if the Division has elected to fund all or a portion of the Debt Service Reserve Requirement from the Pledged Revenues, the required deposit to the Debt Service Reserve Account, as provided in the Resolution; provided that in computing such Annual Debt Service Requirement any Variable Rate Bonds shall be deemed to bear interest at all times to the maturity thereof at a constant rate of interest equal to (a) the highest of (i) the rate borne by such Variable Rate Bonds on the date they were issued (or the initial rate of interest, if established and binding, if the indebtedness is not yet Outstanding) plus one-half (or such greater amount as shall be determined pursuant to a subsequent resolution of the Division) of the difference between such rate and the Maximum Interest Rate, or (ii) the actual rate of interest borne by such Variable Rate Bonds on such date of calculation, or (b) in the event there is a Qualified Interest Rate Agreement, the maximum effective rate of such Variable Rate Bonds adjusted to reflect such Qualified Interest Rate Agreement.

“Authorized Denominations” means the smallest principal denomination in which Bonds of any Series can be issued as determined pursuant to a subsequent resolution of the Division adopted prior to the issuance of such Series.

“Authorized Officer” means any officer or employee authorized to perform specific acts or duties.

“Average Annual Debt Service” means, at any time, the average amount of Pledged Revenues required to be deposited in the Debt Service Account during the then current and all succeeding Fiscal Years for the payment of interest, maturing principal and the scheduled redemption of Term Bonds and, if the Division has elected to fund all or a portion of the Debt Service Reserve Requirement from the Pledged Revenues, the required deposits to the Debt Service Reserve Account, as provided in the Resolution. Term Bonds in the year of maturity shall be included only in the amount of the final scheduled redemption in determining the Average Annual Debt Service. For the purpose of Section 6.01 of the Resolution, governing the issuance of Additional Bonds, in computing Average Annual Debt Service any Variable Rate Bonds or bank reimbursement agreements payable on a parity with the Outstanding Bonds shall be deemed to bear interest at the Maximum Interest Rate.

“Board” means the State Board of Administration of Florida.

“Bond Counsel” means any attorney at law or firm of attorneys, of nationally recognized standing in matters pertaining to the exclusion from gross income of interest on bonds for federal income tax purposes issued by states and political subdivisions, and duly admitted to practice law before the highest court of any state of the United States of America or the District of Columbia.

“Bond Insurance Policy” means an insurance policy issued for the benefit of the Registered Owners of any Bond, pursuant to which the issuer of such insurance policy shall be obligated to pay when due the principal of and interest on such Bond to the extent of any deficiency in the amounts in the funds and accounts held under the Resolution, in the manner and in accordance with the terms provided in such Bond Insurance Policy.

“Bond Registrar/Paying Agent” means U.S. Bank Trust National Association, New York, New York, or its successor bond registrar or paying agent, as applicable.

“Bonds” means the initial Series of State of Florida, State Board of Education, Lottery Revenue Bonds issued pursuant to the Resolution, and any Additional Bonds hereafter issued pursuant to the terms and conditions of the Resolution.

“Bond Year” means, with respect to a particular Series of Bonds issued under the Resolution, the annual period relevant to the application of Section 148(f) of the Code to the Series of Bonds, except that the first and last Bond Years may be less than 12 months long. The last day of a Bond Year shall be the close of business on the day preceding the anniversary of the date of issuance of the Series unless the State Board of Education selects another date on which to end a Bond Year in the manner permitted by the Code.

“Code” means the Internal Revenue Code of 1986, the Treasury Regulations (whether proposed, temporary or final) under that Code or the statutory predecessor of that Code, and any amendments of, or successor provisions to, the foregoing and any official rulings, announcements, notices, procedures and judicial determinations regarding any of the foregoing, all as and to the extent applicable. Unless otherwise indicated, references to a section means that section of the Code, including such applicable Treasury Regulations, rulings, announcements, notices, procedures and determinations pertinent to that section.

“Cost of Issuance” means all costs and expenses of the Division and the Board incurred in connection with the authorization, issuance, sale and delivery of the Bonds including, but not limited to, legal fees, financial advisory fees, municipal bond insurance premiums, fiscal or escrow agent fees, printing fees and travel expenses, rating agency fees and credit enhancement fees, and a charge for the services of the Division.

“Debt Service Account” means the Debt Service Account created in Section 4.01 of the Resolution.

“Debt Service Reserve Account” means the Debt Service Reserve Account created in Section 4.01 of the Resolution.

“Debt Service Reserve Requirement”* means as of any date of calculation, with respect to all Bonds issued under the Resolution, the lessor of:

- (i) 125% of the average Annual Debt Service Requirement of the Bonds for the then current and succeeding Fiscal Years;
- (ii) the Maximum Annual Debt Service on the Bonds;
- (iii) 10% of the par amount of the Bonds; or
- (iv) the maximum debt service reserve permitted with respect to tax-exempt obligations under the Code as applicable to the Bonds.

“Defeasance Obligations” means, to the extent permitted by law, direct obligations of, or obligations the principal of and interest on which are unconditionally guaranteed by, the United States of America, including obligations issued or held in book entry form on the books of the Department of the Treasury of the United States and including advance refunded tax-exempt bonds fully secured by non-callable direct obligations of the United States of America, non-callable obligations guaranteed by the United States of America, or “stripped” interest payment obligations of debt obligations of the Resolution Funding Corporation.

* There will be no Debt Service Reserve for the Series 2011A Bonds.

“Department of Education” means the Department of Education of the State of Florida.

“Division” means the Division of Bond Finance of the State Board of Administration of Florida.

“Educational Enhancement Trust Fund” means the Educational Enhancement Trust Fund created in Section 24.121(2), Florida Statutes.

“Fiscal Year” means the period beginning with July 1 of each year and ending with and including the next June 30.

“Governing Board” means the Governor and Cabinet of the State as the governing board of the Division.

“Interest Payment Date” means, for each Series of Bonds, such dates of each Fiscal Year on which interest on Outstanding Bonds of such Series is payable, as determined pursuant to a subsequent resolution of the Division.

“Lottery Consultant” means a consultant, or a consulting firm or corporation, retained subject to the approval of the Division, which is nationally known and recognized as having expertise in the area of state operated lotteries.

“Lottery Revenue Bond Proceeds Account” means the Lottery Revenue Bond Proceeds Account created in Section 3.02 of the Resolution.

“Maximum Annual Debt Service” means, at any time, the maximum amount of Pledged Revenues required to be deposited in the Debt Service Account during the then current or any succeeding Fiscal Year for the payment of interest, maturing principal and the scheduled redemption of Term Bonds and, if the Division has elected to fund all or a portion of the Debt Service Reserve Requirement from the Pledged Revenues, the required deposit to the Debt Service Reserve Account, as provided in the Resolution. Term Bonds in the year of maturity shall be included only in the amount of the final scheduled redemption in determining the Maximum Annual Debt Service. For the purpose of Section 6.01 of the Resolution, governing the issuance of Additional Bonds, in computing Maximum Annual Debt Service any Variable Rate Bonds or bank reimbursement agreements payable on a parity with the Outstanding Bonds shall be deemed to bear interest at the Maximum Interest Rate.

“Maximum Interest Rate” means, with respect to any particular series of Variable Rate Bonds, a numerical rate of interest that shall be the maximum rate of interest that such Variable Rate Bonds may at any particular time bear, including the maximum effective rate of such Variable Rate Bonds adjusted to reflect a Qualified Interest Rate Agreement, if any, not to exceed the maximum rate of interest allowed under State law, as determined pursuant to a subsequent resolution of the Division.

“Outstanding” when used with reference to the Bonds, means, as of any date of determination, all Bonds theretofore authenticated and delivered, except:

(i) Bonds theretofore canceled by the Bond Registrar/Paying Agent or delivered to the Bond Registrar/Paying Agent for cancellation;

(ii) Bonds which are paid, deemed paid, or defeased;

(iii) Bonds in lieu of which other Bonds have been issued pursuant to the provisions of the Resolution relating to Bonds destroyed, stolen or lost, unless evidence satisfactory to the Bond Registrar/Paying Agent has been received that any such Bond is held by a bona fide purchaser; and

(iv) For purposes of any consent or other action to be taken under the Resolution by the Registered Owners of a specified percentage of principal amount of Bonds, Bonds held by or for the account of the Division or the State Board of Education.

“Pledged Revenues” means all revenues pledged pursuant to Section 24.121(2), Florida Statutes, for bonds issued pursuant to Sections 1013.68, 1013.70 or 1013.737, Florida Statutes.

“Principal Payment Date” means, for each Series of Bonds, such dates of each Fiscal Year on which principal and/or Accreted Value of Outstanding Bonds of such Series is payable, as determined pursuant to a subsequent resolution of the Division.

“Rating Agency” means a nationally recognized bond rating agency.

“Rebate Amount” shall have the meaning ascribed to that term in Section 5.05 of the Resolution.

“Rebate Fund” means the Rebate Fund created in Section 5.05 of the Resolution.

“Record Date” means with respect to each Series of Bonds, except Bonds which are Variable Rate Bonds, the 15th day of the calendar month immediately preceding the month of an Interest Payment Date. The Record Date for Variable Rate Bonds shall be as determined pursuant to a subsequent resolution of the Division.

“Registered Owner” means the owner of any Bond or Bonds as shown on the registration books kept by the Bond Registrar/Paying Agent.

“Reserve Account Credit Facility” means a Reserve Account Insurance Policy, Reserve Account Letter of Credit or other comparable insurance or financial product, if any, deposited in the Debt Service Reserve Account in lieu of or in partial substitution for cash or securities otherwise required to be on deposit therein. The provider of a Reserve Account Credit Facility other than a Reserve Account Insurance Policy or a Reserve Account Letter of Credit shall be rated in one of the two highest full rating categories of a Rating Agency.

“Reserve Account Insurance Policy” means the insurance policy, surety bond or other acceptable evidence of insurance, if any, deposited in the Debt Service Reserve Account, in lieu of or in partial substitution for cash or securities otherwise required to be on deposit therein. The provider of such Reserve Account Insurance Policy shall be assigned one of the two highest policyholder ratings accorded insurers by A.M. Best & Company or any comparable service.

“Reserve Account Letter of Credit” means the irrevocable, transferable letter of credit, if any, deposited in the Debt Service Reserve Account, in lieu of or in partial substitution for cash or securities otherwise required to be on deposit therein. The provider of such letter of credit shall be a banking association, bank or trust company or branch thereof whose letter of credit results in a rating of municipal obligations secured by such letter of credit being in one of the two highest full rating categories of a Rating Agency.

“Resolution” means the Resolution authorizing the issuance of the Bonds, adopted on December 16, 1997, as amended and restated on December 18, 2007, as amended and supplemented from time to time.

“Revenue Fund” means the Revenue Fund created in Section 4.01 of the Resolution.

“Serial Bonds” means the Bonds of a Series which shall be stated to mature in periodic installments.

“Series” means all of the Bonds authenticated and delivered on original issuance and pursuant to the Resolution or any supplemental resolution authorizing such Bonds as a separate series of Bonds, or any Bonds thereafter authenticated and delivered in lieu of or in substitution for such Bonds pursuant to Article II of the Resolution, regardless of variations in maturity, interest rate or other provisions.

“Sinking Fund” means the Sinking Fund created in Section 4.01 of the Resolution.

“State” means the State of Florida.

“State Board of Education” means the State Board of Education of Florida as created by Article IX, Section 2, of the Florida Constitution.

“State Bond Act” means Sections 215.57 through 215.83, Florida Statutes, as amended from time to time.

“Taxable Bonds” means bonds the interest on which is not, in any manner, exempt from federal income taxation or excludable from gross income for federal income tax purposes.

“Term Bonds” means the Bonds of a Series which shall be subject to mandatory redemption prior to maturity and shall be stated to mature on one date and for the scheduled redemption of which payments are required to be made into the Debt Service Account in the Sinking Fund, created by the Resolution, as may be determined pursuant to a subsequent resolution of the Division.

Where the context so requires, words importing singular number shall include the plural number, and vice versa, and words importing persons shall include firms and corporations, wherever the text so requires. Unless the context otherwise clearly requires, the words “include”, “includes” and “including” means including without limitation.

[This page intentionally left blank]

RESOLUTION

WHEREAS, on December 16, 1997, the Governor and Cabinet, sitting as the Governing Board of the Division of Bond Finance of the State Board of Administration of Florida (the "Division"), approved a resolution authorizing the issuance of bonds in an amount not exceeding \$2,500,000,000 to provide for the financing of the costs of classrooms and educational facilities or the refunding of any bonds issued for such purpose, and;

WHEREAS, it became necessary and in the best interest of the State of Florida to amend and restate such resolution on April 28, 1998, and;

WHEREAS, it became necessary and in the best interest of the State of Florida to amend and restate such resolution on May 12, 1998, and;

WHEREAS, it became necessary and in the best interest of the State of Florida to amend and restate such resolution on February 6, 2001, and;

WHEREAS, it became necessary and in the best interest of the State of Florida to amend and restate such resolution on August 12, 2003, and;

WHEREAS, it became necessary and in the best interest of the State of Florida to amend and restate such resolution on February 13, 2007, and;

WHEREAS, the Division wishes to increase the authorized amount of bonds; and

WHEREAS, it has therefore become necessary and in the best interest of the State of Florida to amend, supplement and restate such resolution;

NOW, THEREFORE, BE IT RESOLVED BY THE GOVERNOR AND CABINET AS THE GOVERNING BOARD OF THE DIVISION OF BOND FINANCE:

Section 1. SECTION 2.01 of the resolution adopted on December 16, 1997, as amended and restated on April 28, 1998, May 12, 1998, February 6, 2001, August 12, 2003, and February 13, 2007, authorizing the issuance of bonds in an amount not exceeding \$3,754,695,000 to provide for the financing of the costs of classrooms and educational facilities or the refunding of any bonds issued for such purpose (for the purposes of this resolution, "the Resolution"), is hereby amended to authorize the issuance of an additional not exceeding \$650,000,000 State of Florida, State Board of Education Lottery Revenue Bonds, multiple series, for the purposes of financing fixed capital outlay public school class-size reduction construction. This increase is being adopted in accordance with section 2, line item 36, chapter 2007-72, Laws of Florida, the 2007 General Appropriations Act.

Section 2. The Resolution, as amended and supplemented by Section 1 hereof, is hereby restated in its entirety, as follows:

(Remainder of page intentionally left blank)

A RESOLUTION OF THE DIVISION OF BOND FINANCE OF THE STATE BOARD OF ADMINISTRATION OF FLORIDA AUTHORIZING THE ISSUANCE OF STATE BOARD OF EDUCATION LOTTERY REVENUE BONDS (VARIOUS SERIES) IN AN AGGREGATE PRINCIPAL AMOUNT NOT EXCEEDING \$4,404,695,000 TO PROVIDE FOR THE FINANCING OF THE COSTS OF CLASSROOMS AND EDUCATIONAL FACILITIES OR THE REFUNDING OF ANY BONDS ISSUED FOR SUCH PURPOSE; PROVIDING AN EFFECTIVE DATE.

**ARTICLE I
AUTHORITY AND DEFINITIONS**

SECTION 1.01. AUTHORITY FOR THIS RESOLUTION. This Resolution is adopted pursuant to the provisions of Article VII, Section 11(d), of the Florida Constitution; Sections 1013.68, 1013.70 and 1013.737, Florida Statutes; the State Bond Act, being Sections 215.57-215.83, Florida Statutes; and other applicable provisions of law.

SECTION 1.02. DEFINITIONS. The following terms shall have the following meanings in this Resolution unless the text otherwise requires:

“Accreted Value” shall mean, as of any date of computation with respect to any Capital Appreciation Bond, an amount equal to the principal amount of such Capital Appreciation Bond at its initial offering plus the interest accrued on such Capital Appreciation Bond from the date of delivery to the original purchasers thereof to the Interest Payment Date next preceding the date of computation or the date of computation if such date is an Interest Payment Date, such interest to accrue at a rate per annum determined pursuant to a subsequent resolution of the Division (not to exceed the maximum rate permitted by law), compounded periodically, plus, with respect to matters related to the payment upon redemption of the Capital Appreciation Bond, if such date of computation shall not be an Interest Payment Date, the ratable portion of the difference between the Accreted Value as of the immediately preceding Interest Payment Date (or the date of delivery of the Bonds to the original purchasers thereof if the date of computation is prior to the first Interest Payment Date succeeding the date of delivery) and the Accreted Value as of the immediately succeeding Interest Payment Date, calculated based on the assumption that Accreted Value accrues during any period in equal daily amounts on the basis of a year of twelve 30-day months.

“Additional Bonds” shall mean any obligations hereafter issued pursuant to the terms and conditions of this Resolution and payable from the Pledged Revenues on a parity with the initial Series of State Board of Education Lottery Revenue Bonds originally issued hereunder. Such Additional Bonds shall be deemed to have been issued pursuant to this Resolution the same as the Bonds originally authorized and issued pursuant to this Resolution, and all of the applicable covenants and other provisions of this Resolution (except as to details of such Additional Bonds inconsistent herewith), shall be for the equal benefit, protection and security of the Registered Owners of the Bonds originally authorized and issued pursuant to this Resolution, and the Registered Owners of any Additional Bonds evidencing additional obligations subsequently issued within the limitations of and in compliance with this Resolution. All of such Additional Bonds, regardless of the time or times of their issuance shall rank equally with other Bonds with respect to their lien on and source and security for payment from the Pledged Revenues without preference or priority of any Bond over any other.

“Administrative Expenses” shall mean, with respect to the Bonds or the administration of any funds under this Resolution, to the extent applicable: (i) reasonable fees or charges, or both, of the Board and the Division; and (ii) such other reasonable fees or charges, or both, as may be approved by the Board or the Division, including, but not limited to, those relating to tax law compliance, disclosure of information, paying agents, rating agencies and providers of credit enhancement; all as may be determined from time to time as necessary.

“Annual Debt Service Requirement” shall mean, at any time, the amount of Pledged Revenues (with respect to the particular Series of Bonds, or all Bonds, as the case may be) required to be deposited in the then current Fiscal Year into the Debt Service Account for the payment of interest, maturing principal and the scheduled redemption of Term Bonds and, if the Division has elected to fund all or a portion of the Debt Service Reserve Requirement from the Pledged Revenues, the required deposit to the Debt Service Reserve Account, as provided in this Resolution; provided that in computing such Annual Debt Service Requirement any Variable Rate Bonds shall be deemed to bear interest at all times to the maturity thereof at a constant rate of interest equal to (a) the highest of (i) the rate borne by such Variable Rate Bonds on the date they were issued (or the initial rate of interest, if established and binding, if the indebtedness is not yet Outstanding) plus one-half (or such greater amount as shall be determined pursuant to a subsequent resolution of the Division) of the difference between

such rate and the Maximum Interest Rate, or (ii) the actual rate of interest borne by such Variable Rate Bonds on such date of calculation, or (b) in the event there is a Qualified Interest Rate Agreement, the maximum effective rate of such Variable Rate Bonds adjusted to reflect such Qualified Interest Rate Agreement.

“Authorized Denominations” shall mean the smallest principal denomination in which Bonds of any Series can be issued as determined pursuant to a subsequent resolution of the Division adopted prior to the issuance of such Series.

“Authorized Officer” shall mean any officer or employee authorized to perform specific acts or duties.

“Average Annual Debt Service” shall mean, at any time, the average amount of Pledged Revenues required to be deposited in the Debt Service Account during the then current and all succeeding Fiscal Years for the payment of interest, maturing principal and the scheduled redemption of Term Bonds and, if the Division has elected to fund all or a portion of the Debt Service Reserve Requirement from the Pledged Revenues, the required deposits to the Debt Service Reserve Account, as provided in this Resolution. Term Bonds in the year of maturity shall be included only in the amount of the final scheduled redemption in determining the Average Annual Debt Service. For the purpose of Section 6.01, governing the issuance of Additional Bonds, in computing Average Annual Debt Service any Variable Rate Bonds or bank reimbursement agreements payable on a parity with the Outstanding Bonds shall be deemed to bear interest at the Maximum Interest Rate.

“Board” shall mean the State Board of Administration of Florida.

“Bond Counsel” shall mean any attorney at law or firm of attorneys, of nationally recognized standing in matters pertaining to the exclusion from gross income of interest on bonds for federal income tax purposes issued by states and political subdivisions, and duly admitted to practice law before the highest court of any state of the United States of America or the District of Columbia.

“Bond Insurance Policy” shall mean an insurance policy issued for the benefit of the Registered Owners of any Bond, pursuant to which the issuer of such insurance policy shall be obligated to pay when due the principal of and interest on such Bond to the extent of any deficiency in the amounts in the funds and accounts held under this Resolution, in the manner and in accordance with the terms provided in such Bond Insurance Policy.

“Bond Registrar/Paying Agent” shall mean U.S. Bank Trust National Association, New York, New York, or its successor bond registrar or paying agent, as applicable.

“Bonds” shall mean the initial Series of State of Florida, State Board of Education, Lottery Revenue Bonds issued pursuant to this Resolution, and any Additional Bonds hereafter issued pursuant to the terms and conditions of this Resolution.

“Bond Year” shall mean, with respect to a particular Series of Bonds issued hereunder, the annual period relevant to the application of Section 148(f) of the Code to the Series of Bonds, except that the first and last Bond Years may be less than 12 months long. The last day of a Bond Year shall be the close of business on the day preceding the anniversary of the date of issuance of the Series unless the State Board of Education selects another date on which to end a Bond Year in the manner permitted by the Code.

“Capital Appreciation Bonds” shall mean those Bonds issued under this Resolution as to which interest is compounded periodically on each of the applicable periodic dates designated for compounding and is payable in an amount equal to the then current Accreted Value at the maturity, earlier redemption or other payment date thereof, and which may be either Serial Bonds or Term Bonds, all as determined pursuant to subsequent resolution of the Division.

“Code” shall mean the Internal Revenue Code of 1986, the Treasury Regulations (whether proposed, temporary or final) under that Code or the statutory predecessor of that Code, and any amendments of, or successor provisions to, the foregoing and any official rulings, announcements, notices, procedures and judicial determinations regarding any of the foregoing, all as and to the extent applicable. Unless otherwise indicated, references to a section means that section of the Code, including such applicable Treasury Regulations, rulings, announcements, notices, procedures and determinations pertinent to that section.

“Cost of Issuance” shall mean all costs and expenses of the Division and the Board incurred in connection with the authorization, issuance, sale and delivery of the Bonds including, but not limited to, legal fees, financial advisory fees,

municipal bond insurance premiums, fiscal or escrow agent fees, printing fees and travel expenses, rating agency fees and credit enhancement fees, and a charge for the services of the Division.

“Debt Service Account” shall mean the Debt Service Account created in Section 4.01 hereof.

“Debt Service Reserve Account” shall mean the Debt Service Reserve Account created in Section 4.01 hereof.

“Debt Service Reserve Requirement” shall mean as of any date of calculation, with respect to all Bonds issued hereunder, the lesser of:

(i) 125% of the average Annual Debt Service Requirement of the Bonds for the then current and succeeding Fiscal Years;

(ii) the Maximum Annual Debt Service on the Bonds;

(iii) 10% of the par amount of the Bonds; or

(iv) the maximum debt service reserve permitted with respect to tax-exempt obligations under the Code as applicable to the Bonds.

“Defeasance Obligations” shall mean, to the extent permitted by law, direct obligations of, or obligations the principal of and interest on which are unconditionally guaranteed by, the United States of America, including obligations issued or held in book entry form on the books of the Department of the Treasury of the United States and including advance refunded tax-exempt bonds fully secured by non-callable direct obligations of the United States of America, non-callable obligations guaranteed by the United States of America, or "stripped" interest payment obligations of debt obligations of the Resolution Funding Corporation.

“Department of Education” shall mean the Department of Education of the State of Florida.

“Division” shall mean the Division of Bond Finance of the State Board of Administration of Florida.

“Educational Enhancement Trust Fund” shall mean the Educational Enhancement Trust Fund created in Section 24.121(2), Florida Statutes.

“Fiscal Year” shall mean the period beginning with July 1 of each year and ending with and including the next June 30.

“Governing Board” shall mean the Governor and Cabinet of the State as the governing board of the Division.

“Interest Payment Date” shall mean, for each Series of Bonds, such dates of each Fiscal Year on which interest on Outstanding Bonds of such Series is payable, as determined pursuant to a subsequent resolution of the Division.

“Lottery Capital Outlay and Debt Service Trust Fund” shall mean the Lottery Capital Outlay and Debt Service Trust fund created in Section 1013.71, Florida Statutes.

“Lottery Consultant” shall mean a consultant, or a consulting firm or corporation, retained subject to the approval of the Division, which is nationally known and recognized as having expertise in the area of state operated lotteries.

“Lottery Revenue Bond Proceeds Account” shall mean the Lottery Revenue Bond Proceeds Account created in Section 3.02 hereof.

“Maximum Annual Debt Service” shall mean, at any time, the maximum amount of Pledged Revenues required to be deposited in the Debt Service Account during the then current or any succeeding Fiscal Year for the payment of interest, maturing principal and the scheduled redemption of Term Bonds and, if the Division has elected to fund all or a portion of the Debt Service Reserve Requirement from the Pledged Revenues, the required deposit to the Debt Service Reserve Account, as provided in this Resolution. Term Bonds in the year of maturity shall be included only in the amount of the final scheduled redemption in determining the Maximum Annual Debt Service. For the purpose of Section 6.01, governing the issuance of

Additional Bonds, in computing Maximum Annual Debt Service any Variable Rate Bonds or bank reimbursement agreements payable on a parity with the Outstanding Bonds shall be deemed to bear interest at the Maximum Interest Rate.

“Maximum Interest Rate” shall mean, with respect to any particular series of Variable Rate Bonds, a numerical rate of interest that shall be the maximum rate of interest that such Variable Rate Bonds may at any particular time bear, including the maximum effective rate of such Variable Rate Bonds adjusted to reflect a Qualified Interest Rate Agreement, if any, not to exceed the maximum rate of interest allowed under State law, as determined pursuant to a subsequent resolution of the Division.

“Outstanding”, when used with reference to the Bonds, shall mean, as of any date of determination, all Bonds theretofore authenticated and delivered except:

(i) Bonds theretofore canceled by the Bond Registrar/Paying Agent or delivered to the Bond Registrar/Paying Agent for cancellation;

(ii) Bonds which are paid, deemed paid, or defeased;

(iii) Bonds in lieu of which other Bonds have been issued pursuant to the provisions hereof relating to Bonds destroyed, stolen or lost, unless evidence satisfactory to the Bond Registrar/Paying Agent has been received that any such Bond is held by a bona fide purchaser; and

(iv) For purposes of any consent or other action to be taken hereunder by the Registered Owners of a specified percentage of principal amount of Bonds, Bonds held by or for the account of the Division or the State Board of Education.

“Pledged Revenues” shall mean all revenues pledged pursuant to Section 24.121(2), Florida Statutes, for bonds issued pursuant to Sections 1013.68, 1013.70 or 1013.737, Florida Statutes.

“Principal Payment Date” shall mean, for each Series of Bonds, such dates of each Fiscal Year on which principal and/or Accreted Value of Outstanding Bonds of such Series is payable, as determined pursuant to a subsequent resolution of the Division.

“Qualified Interest Rate Agreement” shall mean (a) an insurance policy, surety bond, or interest rate cap agreement provided with respect to Variable Rate Bonds that places a limit on the required annual interest payments, or (b) a Qualified Swap Agreement.

“Qualified Swap Agreement” means, with respect to a Series of Bonds, any financial arrangement (i) that is entered into by the State Board of Education or the Division with an entity that is a Qualified Swap Agreement Provider at the time of the execution and delivery of the documents governing such arrangement; (ii) that provides (a) that the State Board of Education or the State of Florida shall pay to such entity an amount based on the interest accruing at a fixed rate on an amount equal to the principal amount of the Outstanding Bonds of such Series, and that such entity shall pay to the State Board of Education or the State of Florida an amount based on the interest accruing on a principal amount equal to the Outstanding Bonds of such Series, at either a variable rate of interest or a fixed rate of interest computed according to a formula set forth in such an arrangement (which need not be the same as the actual rate of interest borne by the Series Bonds) or that one shall pay to the other any net amount due under such arrangement, or (b) that the State Board of Education or the State of Florida shall pay to such entity an amount based on the interest accruing on the principal amount of the Outstanding Bonds of such Series at a variable rate of interest as set forth in the arrangement and that such entity shall pay to the State Board of Education or the State of Florida an amount based upon interest accruing on a principal amount equal to the Outstanding Bonds of such Series at an agreed fixed rate or that one shall pay to the other any net amount due under such arrangement; and (iii) which has been designated in writing by the Board or to the Board by the State Board of Education as a Qualified Swap Agreement with respect to the Bonds. Such Qualified Swap Agreement, at the time it is entered into, may not adversely affect the rating on Outstanding Bonds or the Bonds to be issued.

“Qualified Swap Agreement Provider” means, with respect to a Series of Bonds, an entity whose senior long term debt obligations, other senior unsecured long-term obligations or claims paying ability, or whose payment obligations under a Qualified Swap Agreement are guaranteed by an entity whose senior long-term obligations or claims paying ability, are rated (at the time the subject Qualified Swap Agreement is entered into) (i) at least as high as "A", or the equivalent thereof,

by any Rating Agency, if the term of the related Qualified Swap Agreement is ten years or less, or (ii) at least as high as "AA", or the equivalent thereof, by any Rating Agency if the term of the related Qualified Swap Agreement is more than ten years.

"Rating Agency" shall mean a nationally recognized bond rating agency.

"Rebate Amount" shall have the meaning ascribed to that term in Section 5.05 hereof.

"Rebate Fund" shall mean the Rebate Fund created in Section 5.05 hereof.

"Record Date" shall mean with respect to each Series of Bonds, except Bonds which are Variable Rate Bonds, the 15th day of the calendar month immediately preceding the month of an Interest Payment Date. The Record Date for Variable Rate Bonds shall be as determined pursuant to a subsequent resolution of the Division.

"Registered Owner" shall mean the owner of any Bond or Bonds as shown on the registration books kept by the Bond Registrar/Paying Agent.

"Reserve Account Credit Facility" shall mean a Reserve Account Insurance Policy, Reserve Account Letter of Credit or other comparable insurance or financial product, if any, deposited in the Debt Service Reserve Account in lieu of or in partial substitution for cash or securities otherwise required to be on deposit therein. The provider of a Reserve Account Credit Facility other than a Reserve Account Insurance Policy or a Reserve Account Letter of Credit shall be rated in one of the two highest full rating categories of a Rating Agency.

"Reserve Account Insurance Policy" shall mean the insurance policy, surety bond or other acceptable evidence of insurance, if any, deposited in the Debt Service Reserve Account, in lieu of or in partial substitution for cash or securities otherwise required to be on deposit therein. The provider of such Reserve Account Insurance Policy shall be assigned one of the two highest policyholder ratings accorded insurers by A.M. Best & Company or any comparable service.

"Reserve Account Letter of Credit" shall mean the irrevocable, transferable letter of credit, if any, deposited in the Debt Service Reserve Account, in lieu of or in partial substitution for cash or securities otherwise required to be on deposit therein. The provider of such letter of credit shall be a banking association, bank or trust company or branch thereof whose letter of credit results in a rating of municipal obligations secured by such letter of credit being in one of the two highest full rating categories of a Rating Agency.

"Resolution" shall mean this resolution as amended and supplemented from time to time.

"Revenue Fund" shall mean the Revenue Fund created in Section 4.01 hereof.

"Serial Bonds" shall mean the Bonds of a Series which shall be stated to mature in periodic installments.

"Series" shall mean all of the Bonds authenticated and delivered on original issuance and pursuant to this Resolution or any supplemental resolution authorizing such Bonds as a separate series of Bonds, or any Bonds thereafter authenticated and delivered in lieu of or in substitution for such Bonds pursuant to Article II hereof, regardless of variations in maturity, interest rate or other provisions.

"Sinking Fund" shall mean the Sinking Fund created in Section 4.01 hereof.

"State" shall mean the State of Florida.

"State Board of Education" shall mean the State Board of Education of Florida as created by Article IX, Section 2, of the Florida Constitution.

"State Bond Act" shall mean Sections 215.57 through 215.83, Florida Statutes, as amended from time to time.

"Taxable Bonds" shall mean bonds the interest on which is not, in any manner, exempt from federal income taxation or excludable from gross income for federal income tax purposes.

“Term Bonds” shall mean the Bonds of a Series which shall be subject to mandatory redemption prior to maturity and shall be stated to mature on one date and for the scheduled redemption of which payments are required to be made into the Debt Service Account in the Sinking Fund, hereinafter created, as may be determined pursuant to a subsequent resolution of the Division.

“Variable Rate Bonds” shall mean Bonds, which may be either Serial Bonds or Term Bonds, issued with a variable, adjustable, convertible or other similar rate which is not fixed in percentage for the entire term of such Bonds at the date of issue.

Where the context so requires, words importing singular number shall include the plural number, and vice versa, and words importing persons shall include firms and corporations, wherever the text so requires. Unless the context otherwise clearly requires, the words “include”, “includes” and “including” shall mean including without limitation.

SECTION 1.03. RESOLUTION TO CONSTITUTE CONTRACT. In consideration of the acceptance of the Bonds authorized to be issued hereunder by those who shall hold the same from time to time this Resolution shall be deemed to be and shall constitute a contract among the Division, the State Board of Education and such Registered Owners; and the covenants and agreements herein set forth to be performed by the Division and/or the State Board of Education shall be for the equal benefit, protection, and security of the Registered Owners of any and all of the Bonds, all of which shall be of equal rank and without preference, priority, or distinction as to any of the Bonds over any other thereof, except as expressly provided in or permitted by this Resolution.

ARTICLE II AUTHORIZATION, TERMS, EXECUTION, REGISTRATION, TRANSFER AND ISSUANCE OF THE BONDS

SECTION 2.01. AUTHORIZATION OF THE BONDS; TEMPORARY BONDS. Subject and pursuant to the provisions of this Resolution, Bonds designated as "State of Florida State Board of Education Lottery Revenue Bonds" (or such other designation as may be provided by the Director of the Division) are hereby authorized to be issued by the Division in an aggregate principal amount not exceeding \$4,404,695,000 for the purposes of financing or refinancing all or a portion of the costs of various educational facilities. Bonds may be issued all at one time or from time to time in one or more Series, and if in Series, may be dated, numbered, and designated as to Series as shall be determined pursuant to subsequent resolution or resolutions of the Division.

Pending the preparation of definitive Bonds, the Division may execute and deliver temporary Bonds. Temporary Bonds shall be issuable as registered Bonds, without coupons, of any authorized denomination, and substantially in the form of the definitive Bonds but with such omissions, insertions, and variations as may be appropriate for temporary Bonds, all as may be determined by the Division. Temporary Bonds may contain such reference to any provisions of this Resolution as may be appropriate. Every temporary Bond shall be executed and authenticated upon the same conditions and in substantially the same manner, and with like effect, as the definitive Bonds. As promptly as practicable the Division shall execute and shall furnish definitive Bonds and thereupon temporary Bonds may be surrendered in exchange for definitive Bonds without charge at the corporate trust office of the Bond Registrar/Paying Agent, and the Bond Registrar/Paying Agent shall authenticate and deliver in exchange for such temporary Bonds a like aggregate principal amount of definitive Bonds of Authorized Denominations. Until so exchanged, the temporary Bonds shall be entitled to the same benefits under this Resolution as definitive Bonds.

SECTION 2.02. DESCRIPTION OF THE BONDS; PAYMENT OF PRINCIPAL AND INTEREST. Unless otherwise provided for by the Division in a subsequent resolution, the Bonds shall be payable, with respect to interest, principal and premium, if any, in any coin or currency of the United States of America which at the time of payment is legal tender for the payment of public and private debts, and shall be issued in the form of fully registered Bonds. The Bonds shall be dated; shall bear interest, which may be fixed or variable, from their date at a rate not exceeding the rate permitted by law; shall be in denominations and shall mature on such dates, in such years and in such amounts, all as determined pursuant to subsequent resolution of the Division.

The principal amount of the Bonds shall be paid to the Registered Owner on the maturity date of the Bonds, unless redeemed prior thereto as determined pursuant to a subsequent resolution of the Division, upon presentation and surrender of the Bonds at the corporate trust office of the Bond Registrar/Paying Agent.

Interest shall be paid on the Interest Payment Dates to the Registered Owner whose name appears on the books of the Bond Registrar/Paying Agent as of 5:00 p.m. (local time, New York, New York) on the Record Date; provided, however, that if the Record Date is a Saturday, Sunday or holiday, then to the Registered Owner and at the address shown on the registration books at the close of business on the day next preceding such Record Date which is not a Saturday, Sunday or holiday. However, Capital Appreciation Bonds shall bear interest as described under the defined term Accreted Value, payable only upon redemption or maturity thereof. Interest on the Bonds shall be paid by check or draft mailed on each Interest Payment Date (or transferred by a mode at least equally as rapid as mailing) from the Bond Registrar/Paying Agent to the Registered Owner, or in certain cases shall be paid by wire transfer as provided pursuant to subsequent resolution of the Division.

SECTION 2.03. NO PLEDGE OF FULL FAITH AND CREDIT OF STATE OF FLORIDA. The payment of the principal of and interest on the Bonds is secured only by the Pledged Revenues in the manner set forth herein. The Bonds do not constitute general obligations or indebtedness of the State Board of Education, the State of Florida or any of its agencies and shall not be a debt of the State or of any agency thereof.

SECTION 2.04. BONDS MAY BE ISSUED AS SERIAL BONDS, TERM BONDS, ETC. The Bonds issued hereunder may be Serial Bonds or Term Bonds, and may be Variable Rate Bonds, Capital Appreciation Bonds, Taxable Bonds, or any other types of Bonds, as determined pursuant to subsequent resolution of the Division.

SECTION 2.05. PROVISIONS FOR REDEMPTION. The Bonds of each Series may be made redeemable in such manner and upon such terms and conditions as determined pursuant to subsequent resolution adopted by the Governing Board of the Division prior to the sale of the Bonds or any Series thereof.

Unless waived by the Registered Owner of Bonds to be redeemed, a notice of the redemption prior to maturity of any of the Bonds shall be mailed by first class mail (postage prepaid) at least 30 days prior to the date fixed for redemption to the Registered Owner of the Bonds, except Variable Rate Bonds, to be redeemed, of record on the books kept by the Bond Registrar/Paying Agent, as of 45 days prior to the date fixed for redemption. The notice period for Variable Rate Bonds shall be as determined pursuant to subsequent resolution of the Division. Such notice of redemption shall specify the CUSIP number and the serial or other distinctive numbers or letters of the Bonds to be redeemed, if less than all, the date fixed for redemption, the redemption price thereof and, in the case of Bonds to be redeemed in part only, the principal amount thereof to be redeemed. Failure to give any such notice by mailing to any Registered Owner, or any defect therein, shall not affect the validity of the proceedings for the redemption of any Bond or portion thereof with respect to which no such failure has occurred. Any notice mailed as provided above shall be conclusively presumed to have been given, whether or not the Registered Owner of such Bond receives such notice.

The Bond Registrar/Paying Agent shall not be required to issue, transfer or exchange any of the Bonds on the Record Date.

Notice having been given in the manner and under the conditions hereinabove provided, the Bonds or portions of Bonds so called for redemption shall, on the redemption date designated in such notice, become and be due and payable at the redemption price provided for redemption of such Bonds or portions of Bonds on such date. On the date so designated for redemption, notice having been published and mailed in accordance with the terms of this section, and moneys for payment of the redemption price being held in separate accounts by an escrow agent, the Board, or Bond Registrar/Paying Agent, in trust for the Registered Owners of the Bonds or portions thereof to be redeemed, all as provided in this Resolution, interest on the Bonds or portions of Bonds so called for redemption shall cease to accrue, such Bonds and portions of Bonds shall cease to be Outstanding under the provisions of this Resolution and shall not be entitled to any lien, benefit or security under this Resolution, and the Registered Owners of such Bonds or portions of Bonds shall have no rights in respect thereof except to receive payment of the redemption price thereof and, to the extent provided herein, to receive Bonds for any unredeemed portion of the Bonds. Any and all Bonds redeemed prior to maturity shall be duly canceled by the Bond Registrar/Paying Agent and shall not be reissued.

In addition to the foregoing notice, further notice shall be given by the Bond Registrar/Paying Agent as set out below, but no defect in said further notice nor any failure to give all or a portion of such further notice shall in any manner defeat the effectiveness of a call for redemption if notice thereof is given as prescribed above.

(a) Each further notice of redemption given hereunder shall contain the information required above for an official notice of redemption plus (i) the CUSIP numbers of all Bonds being redeemed; (ii) the date of issue of the Bonds as originally

issued; (iii) the rate of interest borne by each Bond being redeemed; (iv) the maturity date of each Bond being redeemed; (v) the publication date of the official notice of redemption; (vi) the name and address of the Bond Registrar/Paying Agent; and (vii) any other descriptive information needed to identify accurately the Bonds being redeemed.

(b) Each further notice of redemption shall be sent at least 35 days before the redemption date by certified mail or overnight delivery service or telecopy to all registered securities depositories then in the business of holding substantial amounts of obligations of types comprising the Bonds (such depositories now being The Depository Trust Company, New York, New York, Pacific Securities Depository Trust Company, San Francisco, California and Philadelphia Depository Trust Company, Philadelphia, Pennsylvania) and to one or more national information services that disseminate notices of redemption of obligations such as the Bonds.

(c) Each further notice of redemption shall be published one time in *The Bond Buyer* of New York, New York or in some other financial newspaper or journal which regularly carries notices of redemption of other obligations similar to the Bonds, such publication to be made at least 30 days prior to the date fixed for redemption.

(d) Upon the payment of the redemption price of Bonds being redeemed, each check or other transfer of funds issued for such purpose shall bear the CUSIP number identifying the Bonds redeemed with the proceeds of such check or other transfer.

In case part but not all of an Outstanding Bond shall be selected for redemption, the Registered Owner thereof shall present and surrender such Bond to the Bond Registrar/Paying Agent for payment of the principal amount thereof so called for redemption, and the Bond Registrar/Paying Agent shall execute and deliver to or upon the order of such Registered Owner, without charge therefor, for the unredeemed balance of the principal amount of the Bond so surrendered, a Bond or Bonds fully registered as to principal and interest.

SECTION 2.06. EXECUTION OF BONDS. The Bonds shall be executed by the Governor, as Chairman of the Governing Board, and attested by the Secretary or an Assistant Secretary of the Governing Board, or such other officers as may be designated by subsequent resolution of the Division, and the corporate seal of the Division or a facsimile thereof shall be affixed thereto or reproduced thereon. The facsimile signatures of the Governor, as Chairman of the Governing Board, and the Secretary of the Governing Board, or such other officer, may be imprinted or reproduced on the Bonds, provided that, in accordance with the laws of the State in effect on the date of the adoption of this Resolution, at least one signature, which may be that of the Bond Registrar/Paying Agent, required to be placed on the Bonds shall be manually subscribed. In the event that the laws of Florida relevant to the requirements for facsimile or manual signatures are changed prior to the delivery of the Bonds, then the signatures which are actually imprinted, reproduced, or manually subscribed on the Bonds shall be in compliance with the new laws. In case any one or more of the officers who shall have signed or sealed any of the Bonds shall cease to be such officer of the Division before the Bonds so signed and sealed shall have been actually sold and delivered, such Bonds may nevertheless be sold and delivered as herein provided and may be issued as if the person who signed or sealed such Bonds had not ceased to hold such office. Any Bonds may be signed and sealed on behalf of the Division by such person as at the actual time of the execution of such Bonds shall hold the proper office, although at the date of such Bonds such person may not have held such office or may not have been so authorized.

A certification as to validation, if any, in the form hereinafter provided, shall be executed with the facsimile signature or manual signature of any present or future Chairman of the Governing Board.

A certificate as to the approval of the issuance of the Bonds pursuant to the provisions of the State Bond Act, in the form provided herein, shall be executed by the facsimile signature of the Secretary or an Assistant Secretary of the Governing Board.

SECTION 2.07. NEGOTIABILITY. The Bonds shall have all the qualities and incidents of a negotiable instrument under the Uniform Commercial Code - Investment Securities Law of the State of Florida. The original Registered Owner and each successive Registered Owner of any of the Bonds shall be conclusively deemed by his acceptance thereof to have agreed that the Bonds shall be and have all the qualities and incidents of a negotiable instrument under the Uniform Commercial Code - Investment Securities Law of the State of Florida.

SECTION 2.08. REGISTRATION AND TRANSFER. (A) The Bonds shall be issued only as fully registered bonds without coupons. The Bond Registrar/Paying Agent shall be responsible for maintaining the books for the registration of and for the transfer of the Bonds in compliance with its agreement with the State.

Upon surrender to the Bond Registrar/Paying Agent for transfer or exchange of any Bond, duly endorsed for transfer or accompanied by an assignment duly executed by the Registered Owner or his attorney duly authorized in writing, the Bond Registrar/Paying Agent shall deliver in the name of the transferee or transferees a new fully registered Bond or Bonds of Authorized Denominations of the same maturity for the aggregate principal amount which the Registered Owner is entitled to receive.

All Bonds presented for transfer, exchange, redemption or payment (if so required by the Division or the Bond Registrar/Paying Agent) shall be accompanied by a written instrument or instruments of transfer or authorization for exchange, in form and with guaranty of signature satisfactory to the Division or the Bond Registrar/Paying Agent, as the case may be, duly executed by the Registered Owner or by the Registered Owner's duly authorized attorney.

Neither the Division nor the Bond Registrar/Paying Agent may charge the Registered Owner or the Registered Owner's transferee for any expenses incurred in making any exchange or transfer of the Bonds. However, the Division or the Bond Registrar/Paying Agent, as the case may be, may require payment from the Registered Owner of a sum sufficient to cover any tax, fee, or other governmental charge that may be imposed in relation thereto. Such governmental charges and expenses shall be paid before any such new Bond shall be delivered.

New Bonds delivered upon any transfer or exchange shall be valid obligations of the State Board of Education, evidencing the same debt as the Bonds surrendered, shall be secured by this Resolution, and shall be entitled to all of the security and benefits hereof to the same extent as the Bonds surrendered.

The Division and the Bond Registrar/Paying Agent may treat the Registered Owner of any Bond as the absolute owner thereof for all purposes, whether or not such Bond shall be overdue, and shall not be bound by any notice to the contrary.

(B) Notwithstanding anything to the contrary in this Resolution, or any other resolution relating to the Bonds, the Bonds may be issued in book-entry only form utilizing the services of a Securities Depository (as used herein, "Securities Depository" means The Depository Trust Company, New York, New York, or its nominees, successors and assigns). So long as a book-entry only system of evidence of transfer of ownership of any Bond is maintained in accordance herewith, any provision of the Resolution relating to the delivery of physical bond certificates shall be inapplicable, and the Resolution shall be deemed to give full effect to such book-entry system.

If Bonds are issued in book-entry only form:

(1) The Bonds shall be issued in the name of the Securities Depository as Registered Owner of the Bonds, and held in the custody of the Securities Depository or its designee.

(2) Transfers of beneficial ownership of the Bonds will be effected on the records of the Securities Depository and its Participants pursuant to rules and procedures established by the Securities Depository ("Participants" include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations, as well other organizations that clear through or maintain a custodial relationship with such organizations, either directly or indirectly).

(3) Each Participant shall be credited in the records of the Securities Depository with the amount of such Participant's interest in the Bonds. Beneficial ownership interests in the Bonds may be purchased by or through Participants. The holders of these beneficial ownership interests are hereinafter referred to as the "Beneficial Owners." The Beneficial Owners shall not receive Bonds representing their beneficial ownership interests. The ownership interests of each Beneficial Owner shall be recorded through the records of the Participant from which such Beneficial Owner purchased its Bonds. Transfers of ownership interests in the Bonds shall be accomplished by book entries made by the Securities Depository and, in turn, by Participants acting on behalf of Beneficial Owners.

(4) Unless otherwise provided herein, the Division of Bond Finance, the State Board of Education, the Board and the Bond Registrar/Paying Agent (as used in this section, the "State and its agents") shall treat the Securities Depository as the sole and exclusive owner of the Bonds registered in its name for the purposes of

(a) payment of the principal of, premium, if any, and interest on the Bonds or portion thereof to be redeemed or purchased. Payments made to the Securities Depository of principal, premium, and interest shall be valid and effective to fully satisfy and discharge the Board's obligations to the extent of the sums so paid;

(b) giving any notice permitted or required to be given to Registered Owners under the Resolution; and

(c) the giving of any direction or consent or the making of any request by the Registered Owners hereunder. The State and its agents may rely conclusively upon

(I) a certificate of the Securities Depository as to the identity of the Participants with respect to the Bonds; and

(ii) a certificate of any such Participant as to the identity of, and the respective principal amount of Bonds beneficially owned by, the Beneficial Owners.

(5) The State and its agents shall have no responsibility or obligations to the Securities Depository, any Participant, any Beneficial Owner or any other person which is not shown on the Bond Register, with respect to

(a) the accuracy of any records maintained by the Securities Depository or any Participant;

(b) the payment by the Securities Depository or by any Participant of any amount due to any Beneficial Owner in respect of the principal amount or redemption or purchase price of, or interest on, any Bond;

(c) the delivery of any notice by the Securities Depository or any Participant;

(d) the selection of the Participants or the Beneficial Owners to receive payment in the event of any partial redemption of the Bonds; or

(e) any consent given or any other action taken by the Securities Depository or any Participant.

(6) The requirements in the Resolution of holding, delivering or transferring Bonds shall be deemed modified to require the appropriate person to meet the requirements of the Securities Depository as to registering or transferring the book-entry Bonds to produce the same effect. Any provision hereof permitting or requiring delivery of the Bonds shall, while the Bonds are in book-entry only form, be satisfied by the notation thereof on the books of the Securities Depository in accordance with applicable state law.

(C) The Division of Bond Finance may discontinue the book-entry system with the then-current securities depository, subject to the terms of its agreement with such securities depository. In this event, the Division of Bond Finance shall either

(1) identify another qualified securities depository or

(2) prepare and deliver replacement Bonds in the form of fully registered bonds to each Beneficial Owner.

Notwithstanding the foregoing provisions of this section, the Division reserves the right, on or prior to the delivery of any Series of Bonds, to amend or modify the foregoing provisions relating to registration of the Bonds issued subsequent to such amendment, in order to comply with all applicable laws, rules, and regulations of the United States Government and the State of Florida relating thereto.

SECTION 2.09. AUTHENTICATION. No Bond shall be valid or obligatory for any purpose or be entitled to any security or benefit under this Resolution unless and until a certificate of authentication on such Bond substantially in the form herein set forth shall have been duly executed by the manual signature of the Bond Registrar/Paying Agent, and such executed certificate of the Bond Registrar/Paying Agent upon any such Bond shall be conclusive evidence that such Bond has been authenticated and delivered under this Resolution. The Bond Registrar/Paying Agent's certificate of authentication on any Bond shall be deemed to have been executed by it if signed by an authorized officer or signatory of the Bond Registrar/Paying Agent, but it shall not be necessary that the same officer or signatory sign the certificate of authentication on all of the Bonds issued hereinafter.

SECTION 2.10. DISPOSITION OF BONDS PAID OR EXCHANGED. Whenever any Bond shall be delivered to the Bond Registrar/Paying Agent for cancellation, upon payment of the principal amount thereof or for replacement or transfer or exchange, such Bond shall either be retained by the Bond Registrar/Paying Agent for a period of time specified in writing by the Division or the Board or, at the option of the Division or the Board, shall be canceled and destroyed by the Bond Registrar/Paying Agent and counterparts of a certificate of destruction evidencing such destruction shall be furnished to the Division or the Board.

SECTION 2.11. BONDS MUTILATED, DESTROYED, STOLEN OR LOST. In case any Bond shall be mutilated, or be destroyed, stolen or lost, the Division may in its discretion issue and deliver a new Bond of like tenor as the Bond so mutilated, destroyed, stolen, or lost, in exchange and substitution for such mutilated Bond, upon surrender and cancellation of such mutilated Bond or in lieu of and substitution for the Bond destroyed, stolen or lost, and upon the Registered Owner furnishing the Division proof of ownership thereof and satisfactory indemnity and complying with such other reasonable regulations and conditions as the Division may prescribe and paying such expenses as the Division may incur. All Bonds so surrendered shall be canceled by the Bond Registrar/Paying Agent. If any such Bond shall have matured or be about to mature, instead of issuing a substitute Bond, the Division may pay the same, upon being indemnified as aforesaid, and if such Bond be lost, stolen or destroyed, without surrender thereof.

Any such duplicate Bonds issued pursuant to this section shall constitute original, additional, contractual obligations on the part of the State Board of Education, whether or not the lost, stolen or destroyed Bonds be at any time found by anyone and such duplicate Bonds shall be entitled to equal and proportionate benefits and rights as to lien, source and security for payment, pursuant to this Resolution, from the Pledged Revenues.

SECTION 2.12. FORM OF BONDS. The text of the Bonds together with the form of the certificates to be endorsed thereon, shall be substantially of the following tenor, with such omissions, insertions and variations as may be necessary and desirable and authorized or permitted by this Resolution or any subsequent resolution adopted prior to the issuance thereof, or as may be necessary to comply with applicable laws, rules, and regulations of the United States Government and the State of Florida in effect upon the issuance thereof:

(Form of Bond intentionally omitted)

ARTICLE III APPLICATION OF BOND PROCEEDS; SECURITY FOR THE BONDS

SECTION 3.01. APPLICATION OF BOND PROCEEDS. Unless provided otherwise by a subsequent resolution of the Division authorizing such Series of Bonds, upon receipt of the proceeds of the sale of any Series of the Bonds, and after reserving and providing for the payment of the Cost of Issuance, the Division shall transfer and deposit the remainder of the proceeds of such Series of the Bonds as follows:

(1) An amount equal to any accrued interest on such Series of Bonds shall be transferred to the Board to be deposited in the Sinking Fund, hereinafter established, and used by the Board only for the payment of interest on the Bonds;

(2) The amount, if any, determined in the sole discretion of the Division prior to the sale of such Series of Bonds, as being necessary to provide for the payment of interest accruing on such Series of Bonds for a reasonable period of time from the date of issuance of the Bonds shall be transferred to the Board and deposited in the Sinking Fund and used by the Board only for the payment of interest on the Bonds;

(3) Except as provided below, an amount of money shall be deposited in the Debt Service Reserve Account in the aggregate amount necessary to make the amount in the Debt Service Reserve Account equal to the Debt Service Reserve Requirement. That portion of the Debt Service Reserve Requirement attributable to a Series of Bonds need not be fully funded at the time of issuance of such Series of Bonds if (i) the Division elects by resolution adopted prior to issuance of such Series of Bonds, subject to the limits described below, to fully fund that portion of the Debt Service Reserve Requirement attributable to a Series of Bonds over a period specified in such resolution not to exceed sixty months, during which substantially equal monthly installments shall be made in order that the amounts on deposit therein at the end of such period shall equal that portion of the Debt Service Reserve Requirement attributable to such Series of Bonds, or (ii) the Division

provides a Reserve Account Credit Facility in an amount equal to the difference between the Debt Service Reserve Requirement and the sums then on deposit (or required to be on deposit over a specified period as authorized above) in the Debt Service Reserve Account. Such Reserve Account Credit Facility as provided above must provide for payment on any Interest Payment Date or Principal Payment Date on which a deficiency exists in moneys held hereunder to make a payment with respect to the Bonds which cannot be cured by funds in any other fund or account held pursuant to this Resolution and available for such purpose, and which shall name the Bond Registrar/Paying Agent or the Board for the benefit of the Registered Owners as the beneficiary thereof. In no event shall the use of such Reserve Account Credit Facility be permitted if it would cause, at the time of acquisition of such Reserve Account Credit Facility, a reduction in any existing rating on the Bonds or any Series thereof. If the Debt Service Reserve Account is to be funded in installments pursuant to clause (i) above, the deposits required pursuant to (i) above must be in an amount which will be sufficient to pay the required monthly installments specified in such resolution, plus an additional amount necessary to make up any deficiencies caused by withdrawals;

(4) In the case of the proceeds of refunding bonds issued pursuant to Section 6.03, an amount which, together with any other available funds, is sufficient for purposes of such refunding including the payment of the amount of fees and expenses estimated to be due in connection with such refunding, is to be deposited into a separate trust fund created pursuant to an escrow deposit agreement; and

(5) After making the transfers provided for in subsections (1), (2), (3) and (4) above, the balance of the proceeds of the Bonds sold shall be transferred to and deposited in the Lottery Revenue Bond Proceeds Account, as created in Section 3.02, and used for the purposes of said fund.

SECTION 3.02. LOTTERY REVENUE BOND PROCEEDS ACCOUNT. There is hereby created in the State Treasury an account within the Lottery Capital Outlay and Debt Service Trust Fund to be known as the Lottery Revenue Bond Proceeds Account. The Lottery Revenue Bond Proceeds Account shall be administered by the Department of Education and shall be used only for the distribution of Bond proceeds for purposes authorized pursuant to Sections 1013.68, 1013.70, 1013.71, 1013.735, 1013.736 and 1013.737, Florida Statutes. If the Bonds are issued in Series, separate sub-accounts within the Lottery Revenue Bond Proceeds Account may be established from the proceeds of the sale of each Series of Bonds.

If any unexpended balance of funds shall remain in any sub-account of the Lottery Revenue Bond Proceeds Account after the completion of the purposes for which the Bonds were issued, such unexpended balance shall be deposited into the Sinking Fund to be used to purchase or redeem Bonds, unless otherwise requested by the State Board of Education, provided that, prior to any such other application, the State Board of Education shall receive an opinion of Bond Counsel that such application will not adversely affect the exemption from federal income taxation of interest on any of the Bonds, except Taxable Bonds.

SECTION 3.03. INVESTMENT OF LOTTERY REVENUE BOND PROCEEDS ACCOUNT. Any moneys in the Lottery Revenue Bond Proceeds Account not immediately needed for the purposes of said account may be temporarily invested and reinvested, but only in the securities authorized in Section 18.10, Florida Statutes; provided, however, that such investments shall mature, or be subject to redemption on demand by the holder at a price not less than 100% of the principal amount thereof, not later than the date when such moneys will be required for the purposes of said account, and provided that such investments shall be restricted to the extent necessary for each Rating Agency which maintains a rating on the Bonds to maintain a rating in at least the "A" category or its equivalent.

Any and all income and interest received upon any investment or reinvestment of moneys in the Lottery Revenue Bond Proceeds Account shall be deposited in said account and all investments or reinvestments shall be liquidated whenever necessary to provide moneys needed for the purposes of said account.

SECTION 3.04. LIEN OF REGISTERED OWNERS ON LOTTERY REVENUE BOND PROCEEDS ACCOUNT MONEYS. The Registered Owners of each Series of Bonds shall have a lien on all the proceeds of such Series of Bonds deposited in the Lottery Revenue Bond Proceeds Account until such moneys are applied as provided herein.

SECTION 3.05. SECURITY FOR THE LOTTERY REVENUE BONDS. The Bonds shall be payable from, and secured by a first lien upon, the Pledged Revenues, whether such revenues are in the Educational Enhancement Trust Fund, the Lottery Capital Outlay and Debt Service Trust Fund, or any of the accounts and funds established pursuant to Article IV hereof.

**ARTICLE IV
PAYMENT AND APPLICATION OF PLEDGED REVENUES**

SECTION 4.01. CREATION OF FUNDS AND ACCOUNTS. The following funds and accounts are hereby created and established:

The "Revenue Fund".

The "Sinking Fund". There are hereby created separate accounts within the Sinking Fund to be known as the "Debt Service Account", and the "Debt Service Reserve Account".

The funds and accounts created and established by this Article IV shall all constitute trust funds for the purposes provided in this Resolution, and the Registered Owners of the Bonds shall have a lien on all moneys in such funds and accounts until applied as provided in this Article IV.

Separate accounts or subaccounts may be established in any or all of the above funds and accounts in connection with the issuance of a Series of Bonds.

SECTION 4.02. COLLECTION OF PLEDGED REVENUES. After the issuance of any Bonds pursuant to this Resolution, and continuing until such time as none of the Bonds are Outstanding, all Pledged Revenues, in an amount sufficient to make all transfers required to be made pursuant to Section 4.03 hereof, shall be transferred by the Department of Education to the Board for deposit into the Revenue Fund.

SECTION 4.03. APPLICATION OF MONEYS ON DEPOSIT IN THE REVENUE FUND. The moneys in the Revenue Fund shall be applied in the following manner and order of priority:

(1) Moneys in the Revenue Fund shall first be used, to the extent necessary, for deposit into the Debt Service Account in the Sinking Fund, on the 24th day of each month, beginning with the 24th day of the first full calendar month following the date on which any of the Bonds are delivered to the purchaser thereof, or on such other date as is determined pursuant to subsequent resolution of the Division, such sums as shall be sufficient to pay one-sixth of the interest becoming due on the Bonds on the next semiannual interest payment date; provided, however, that such monthly deposits for interest shall not be required to be made into the Debt Service Account to the extent that money on deposit therein is sufficient for such purpose and, provided further, that in the event the Division has issued Variable Rate Bonds, moneys in the Revenue Fund shall be deposited at such other or additional times and amounts as necessary to pay interest becoming due on the Variable Rate Bonds on the next Interest Payment Date, all in the manner provided pursuant to the subsequent resolution of the Division authorizing such Variable Rate Bonds. Such subsequent resolution shall require moneys in the Revenue Fund to be deposited no less frequently than monthly and in an amount equal to either:

(a) the interest accrued during the preceding month on such Variable Rate Bonds; or

(b) substantially equal monthly amounts reasonably calculated to provide sufficient amounts to pay the interest accrued as of the succeeding Interest Payment Date, plus an amount to be deposited in the month prior to the Interest Payment Date not less than the difference between (i) the sum of the monthly deposits since the preceding Interest Payment Date and (ii) the interest payable on the next Interest Payment Date.

In the event that the period to elapse between the date of delivery of the Bonds and the first Interest Payment Date or between Interest Payment Dates will be other than six months, then such monthly payments shall be increased or decreased as appropriate, in sufficient amounts to provide the required interest amount due on the next Interest Payment Date. Any monthly payment out of moneys in the Revenue Fund to be deposited as set forth above, for the purpose of meeting interest payments for any Series of Bonds, shall be adjusted, as appropriate, to reflect the frequency of Interest Payment Dates applicable to such Series.

Any deficiencies for prior payment into the Debt Service Account for the payment of interest shall be restored from the first moneys in the Revenue Fund available after the payments required by (1) above.

(2) Moneys in the Revenue Fund shall next be used, to the extent necessary:

(a) for deposit into the Debt Service Account on the 24th day of each month, in the case of Serial Bonds which mature semiannually, one-sixth of the principal amount of the Serial Bonds which will mature and become due on such semiannual maturity dates and, in the case of Serial Bonds which mature annually, one-twelfth of the principal amount of the Serial Bonds which will mature and become due on such annual maturity dates, beginning with the 24th day of the first full calendar month following the date on which any or all of the Bonds are delivered to the purchaser thereof, or on such other date as shall hereafter be determined pursuant to subsequent resolution of the Division; provided, however, that such monthly deposits for principal shall not be required to be made into the Debt Service Account to the extent that money on deposit therein is sufficient for such purpose.

In the event the period to elapse between the date of delivery of the Bonds and the next Principal Payment Date will be other than six months, in the case of Serial Bonds which mature semiannually, or twelve months, in the case of Serial Bonds which mature annually, then such monthly payments shall be increased or decreased, as appropriate, in sufficient amounts to provide the required principal amount maturing on the next Principal Payment Date. Any monthly payment of moneys in the Revenue Fund to be deposited as set forth above for the purpose of meeting payments of principal of the Bonds, shall be adjusted, as appropriate, to reflect the frequency of principal payments applicable to such Series of Bonds.

(b) for deposit into the Debt Service Account on the 24th day of each month in each year, beginning with the 24th day of the first full calendar month following the date on which any or all of the Bonds are delivered to the purchaser thereof, or on such other date as is determined pursuant to subsequent resolution, and in such amounts in each year as may be required for the payment of the Term Bonds payable from the Debt Service Account, as shall hereafter be determined pursuant to subsequent resolution of the Division.

The moneys deposited in the Debt Service Account pursuant to paragraph (2) (b) above shall be used solely for the purchase or redemption of the Term Bonds payable therefrom. The Board may at any time purchase any of said Term Bonds at prices not greater than the then redemption price of said Term Bonds provided such purchase does not adversely affect the ability to pay principal or interest on the applicable due dates of Bonds not purchased. If the Term Bonds are not then redeemable prior to maturity, the Board may purchase said Term Bonds at prices not greater than the redemption price of such Term Bonds on the next ensuing redemption date. The Board shall be mandatorily obligated to use moneys in the Debt Service Account, which were deposited in the Debt Service Account for the redemption prior to maturity of such Term Bonds, in such manner and at such times as shall be determined pursuant to subsequent resolution of the Division. If, by the application of such moneys in the Debt Service Account, the Board shall purchase or call for redemption in any year Term Bonds in excess of the installment requirement for such year, such excess of Term Bonds so purchased or redeemed shall be credited in such manner to the remaining amortization installments for the Term Bonds of the same Series and maturity as the Term Bonds so purchased or redeemed as the Board shall determine.

No distinction or preference shall exist in the use of the moneys on deposit in the Debt Service Account for the payment of principal and the scheduled redemption of Term Bonds pursuant to this subsection (2), such moneys being on a parity with each other as to payment from the Debt Service Account. Any deficiencies for prior payment into the Debt Service Account for the payment of principal and the scheduled redemption of Term Bonds shall be restored from the first moneys in the Revenue Fund available after making the payments required by (1) above.

(3) Moneys in the Revenue Fund shall next be used, to the extent necessary, for deposit into the Debt Service Reserve Account on the 24th day of each month, beginning with the 24th day of the first full calendar month following the date on which any or all of the Bonds issued hereunder are delivered to the purchaser thereof, or on such other date as is determined pursuant to subsequent resolution of the Division, such sums as shall be sufficient to maintain an amount equal to the Debt Service Reserve Requirement established for the Bonds; provided, however, that where the Division has elected to fund all or a portion of the Debt Service Reserve Account over a period of time, this maintenance requirement shall apply to those sums required to be on deposit over the specified period.

Notwithstanding the foregoing provisions, in lieu of the required deposits into the Debt Service Reserve Account or in replacement of any prior deposits into the Debt Service Reserve Account, the Division may cause at any time to be deposited into the Debt Service Reserve Account one or more Reserve Account Credit Facilities for the benefit of the Registered Owners of the Bonds, in an amount or amounts which, together with sums on deposit, equals the Debt Service Reserve Requirement. Reserve Account Credit Facilities shall be payable or available to be drawn upon, as the case may be, on any Interest Payment Date or Principal Payment Date on which a deficiency exists which cannot be cured by funds in any other account held for such Bonds pursuant to this Resolution and available for such purpose. If more than one Reserve Account Credit Facility is deposited into the Debt Service Reserve Account, each Reserve Account Credit Facility

shall be drawn upon in a proportion equal to its relative share of the amounts in the Debt Service Reserve Account. If a disbursement is made under a Reserve Account Credit Facility, there shall be an obligation, in accordance and in the priority set forth in this Resolution, to either reinstate such Reserve Account Credit Facility from the first moneys in the Revenue Fund available after all required payments have been made into the Debt Service Account, including any deficiencies for prior payments, to the amount required to be maintained in the Debt Service Reserve Account or to deposit into the Debt Service Reserve Account from the moneys in the Revenue Fund, as herein provided, funds in the amount of the disbursement made under such Reserve Account Credit Facility, or a combination of such alternatives as shall equal the amount required to be maintained therein. To the extent that there is a reinstatement of a Reserve Account Credit Facility or a reimbursement of a Reserve Account Credit Facility provider, such reinstatement or reimbursement shall be in proportion to the amounts drawn from the various Reserve Account Credit Facilities.

In the event that any moneys shall be withdrawn by the Board from the Debt Service Reserve Account for deposit into the Debt Service Account, such withdrawals shall be subsequently restored from the first moneys in the Revenue Fund available after all required payments have been made into the Debt Service Account, including any deficiencies for prior payments, unless restored by a Reserve Account Credit Facility of the amount withdrawn.

Moneys in the Debt Service Reserve Account shall be used only for deposit into the Debt Service Account when the other moneys in the Sinking Fund available for such purpose are insufficient therefor.

Any moneys in the Debt Service Reserve Account in excess of the amount required to be maintained therein shall be deposited by the Board into the Revenue Fund and used as provided herein for said fund. However, moneys in the Debt Service Reserve Account in replacement of which a Reserve Account Credit Facility is deposited into such Debt Service Reserve Account may be withdrawn and used for any lawful purpose.

(4) Moneys in the Revenue Fund shall next be deposited to the Rebate Fund, on the 24th day of each month, beginning with the 24th day of the first calendar month following the date on which any of the Bonds are delivered to the purchaser thereof, or on such other date as is determined pursuant to subsequent resolution of the Division to the extent that any liability for arbitrage rebate, as determined by the Division pursuant to Section 5.05, is not fully funded, in an amount necessary to fund such liability.

(5) Moneys in the Revenue Fund shall next be used, to the extent necessary, on the 24th day of each month, beginning with the 24th day of the first calendar month following the date on which any of the Bonds are delivered to the purchaser thereof, or on such other date as is determined pursuant to subsequent resolution of the Division, for the payment of any Administrative Expenses.

(6) Thereafter, the balance of any moneys remaining in the Revenue Fund not needed for the payments required in paragraphs (1) through (5), above, shall be returned to the Lottery Capital Outlay and Debt Service Trust Fund; provided, however, that no such use pursuant to this paragraph shall be made unless all payments required in paragraphs (1) through (5), above, including any deficiencies for prior payments, have been made in full to the date of such use.

SECTION 4.04. INVESTMENT OF FUNDS. Unless otherwise provided, all moneys maintained at any time in the funds held by the Board under the provisions of Section 4.03 hereof may be invested as provided in Section 215.47, Florida Statutes; provided, however, that such investments shall mature, or be subject to redemption on demand by the holder at a price not less than 100% of the principal amount thereof, not later than the date when such moneys will be required for the purposes of said fund, and provided that such investments shall be restricted to the extent necessary for each Rating Agency which maintains a rating on the Bonds to maintain a rating in at least the "A" category or its equivalent. Unless otherwise provided herein or by subsequent resolution, any and all income and interest received upon any investments of the moneys in the funds created under Section 4.01 hereof and administered by the Board, except such amounts required to be deposited in the Rebate Fund, shall be deposited by the Board in the Revenue Fund and used in the same manner and order of priority as other moneys on deposit therein.

SECTION 4.05. MAINTENANCE OF FUNDS AND ACCOUNTS. The designation and establishment of the various funds and accounts in and by this Resolution and the various subsequent resolutions shall not be construed to require the establishment of any completely independent, self-balancing segregated funds or accounts, as such terms are commonly defined and used in governmental accounting, but rather is intended solely to constitute an earmarking of Pledged Revenues for certain purposes and to establish certain priorities for application of Pledged Revenues as provided herein. Cash and investments required to be accounted for in each of the funds and accounts established by or pursuant to this Resolution may

be deposited in a single account, provided that accounting records are maintained to reflect the moneys and investments therein and the receipts of and disbursements from such funds and accounts and the investment income earned thereon.

The foregoing provisions notwithstanding, the funds and accounts created and established pursuant to this Resolution shall constitute trust funds for the purposes provided herein and shall be maintained on the accounting records as separate and distinct funds and accounts in the manner provided in this Resolution. All moneys in such funds and accounts deposited in any depository or in the custody of the Board shall be continuously secured in the same manner provided herein.

SECTION 4.06. BOARD FISCAL AGENT FOR REVENUE FUND. Pursuant to Section 215.69, Florida Statutes, and other applicable statutes, from and after the date of the Bonds, the Board will administer the Revenue Fund pursuant to this Resolution.

Pursuant to the provisions of Section 215.69, Florida Statutes, after the Division receives the proceeds of the Bonds, pays its costs, and transfers the remainder of such proceeds as provided herein, the Board shall succeed to the powers, authority, and duties of the Division with regard to said Bonds.

SECTION 4.07. VALUATION OF FUNDS. In computing the amount in any fund or account created under provisions of this Resolution for any purpose provided in this Resolution, obligations purchased as an investment of moneys therein shall be valued at the "cost" thereof, exclusive of accrued interest.

SECTION 4.08. QUALIFIED SWAP AGREEMENT PAYMENTS. The State Board of Education or the Division may enter into one or more Qualified Swap Agreements with respect to one or more Series of Bonds issued hereunder. The State Board of Education or the Division may grant to the counterparties to such Qualified Swap Agreements a lien on the Pledged Revenues to secure payment of such Qualified Swap Agreement payments and to provide the priority of payment thereof.

ARTICLE V COVENANTS WITH REGISTERED OWNERS

SECTION 5.01. PLEDGE OF PLEDGED REVENUES. So long as any of the Bonds or interest thereon are Outstanding and unpaid, all of the Pledged Revenues shall be and are hereby pledged to the payment of the principal of and interest on the Bonds in the manner provided in this Resolution. The Registered Owners of the Bonds shall have a valid and enforceable first lien on the Pledged Revenues until paid out and applied in the manner provided herein.

SECTION 5.02. PLEDGED REVENUES COLLECTION, DEPOSIT AND TRANSFER. The State Board of Education shall punctually collect, deposit and transfer, or cause to be collected, deposited and transferred, the Pledged Revenues in the manner and at the times provided in this Resolution.

SECTION 5.03. ENFORCEABILITY BY REGISTERED OWNERS. This Resolution, including the pledge of the Pledged Revenues as provided herein, shall be deemed to have been made for the benefit of, and shall be a contract with, the Registered Owners, and such pledge and all the provisions of this Resolution shall be enforceable in any court of competent jurisdiction by any Registered Owner, against either the State Board of Education, the Board, or any other agency of the State, or instrumentality thereof, having any duties concerning collection, administration and disposition of the Pledged Revenues. The State Board of Education, the Division and the Board do hereby consent to the bringing of any proceedings in any court of competent jurisdiction by any Registered Owner or Registered Owners of the Bonds for the enforcement of all provisions of this Resolution and do hereby waive, to the extent permitted by law, any privilege or immunity from suit which it may now or hereafter have as an agency of the State. However, no covenant or agreement contained in this Resolution or any Bond issued pursuant thereto shall be deemed to be the covenant or agreement of any officer or employee of the State of Florida in his or her individual capacity and neither the officers nor employees of the State of Florida nor any official executing any of the Bonds shall be liable personally on the Bonds or be subject to any personal liability or accountability by reason of the issuance thereof.

SECTION 5.04. NO ACCELERATION. The Bonds shall not be accelerated on account of any default on any payments required under this Resolution.

SECTION 5.05. COMPLIANCE WITH TAX REQUIREMENTS. (A) Except with respect to Taxable Bonds, in addition to any other requirement contained in this Resolution, the Division, the Board, and the State Board of Education

hereby covenant and agree, for the benefit of the Registered Owners from time to time of the Bonds, that each will comply with the requirements contained in Section 103 and Part IV of Subchapter B of Chapter 1 of the Code as shall be set forth in the non-arbitrage certificate of the State Board of Education dated and delivered on the date of original issuance and delivery of any Bonds. Specifically, without intending to limit in any way the generality of the foregoing, the State Board of Education covenants and agrees:

(i) to pay or cause to be paid by the Board to the United States of America from the Pledged Revenues and any other legally available funds, at the times required pursuant to Section 148(f) of the Code, the excess of the amount earned on all nonpurpose investments (as defined in Section 148(f)(6) of the Code) over the amount which would have been earned if such nonpurpose investments were invested at a rate equal to the yield on the Bonds, plus any income attributable to such excess (the "Rebate Amount");

(ii) to maintain and retain or cause to be maintained and retained all records pertaining to and to be responsible for making or causing to be made all determinations and calculations of the Rebate Amount and required payments of the Rebate Amount as shall be necessary to comply with the Code;

(iii) to refrain from using proceeds from the Bonds in a manner that might cause any of the Bonds to be classified as private activity bonds under Section 141(a) of the Code; and

(iv) to refrain from taking any action that would cause any of the Bonds to become arbitrage bonds under Section 148 of the Code.

The State Board of Education, the Division and the Board understand that the foregoing covenants impose continuing obligations that will exist throughout the term of the Bonds to comply with the requirements of the Code.

(B) The State Board of Education covenants and agrees that it shall maintain and retain or cause to be maintained and retained all records pertaining to and it shall be responsible for making and having made all determinations and calculations of the Rebate Amount for each Series of Bonds issued hereunder for each Bond Year within 60 days after the end of such Bond Year and within 60 days after the final maturity of each such Series of Bonds. On or before the expiration of each such 60 day period, the State Board of Education shall deposit or direct the Board to deposit into the Rebate Fund which is hereby created and established with the Board, from investment earnings or moneys deposited in the other funds and accounts created hereunder, or from any other legally available funds of the State Board of Education, an amount equal to the Rebate Amount for such Bond Year. The Board shall use such moneys deposited in the Rebate Fund only for the payment of the Rebate Amount to the United States as required by subsection (A) of this section, and as directed by the State Board of Education, which payments shall be made in installments, commencing not more than 60 days after the end of the fifth Bond Year and with subsequent payments to be made not later than five years after the preceding payment was due except that the final payment shall be made within 60 days after the final maturity of the last obligation of the series of Bonds issued hereunder. In complying with the foregoing, the State Board of Education may rely upon any instructions or opinions from Bond Counsel.

Notwithstanding anything in this Resolution to the contrary, to the extent moneys on deposit in the Rebate Fund are insufficient for the purpose of paying the Rebate Amount and other funds of the State Board of Education are not available to pay the Rebate Amount, then the Board shall pay the Rebate Amount first from Pledged Revenues and, to the extent the Pledged Revenues are insufficient to pay the Rebate Amount, then from moneys on deposit in any of the funds and accounts created hereunder.

If at any time the Division or the State Board of Education determines that the amount of money on deposit in the Rebate Fund is in excess of the Rebate Amount, the Division or the State Board of Education may direct the Board to transfer the amount of money in excess of the Rebate Amount to the State Board of Education for deposit as directed by the State Board of Education or the Division.

If any amount shall remain in the Rebate Fund after payment in full of all Bonds issued hereunder and after payment in full to the United States in accordance with the terms hereof, such amounts shall be paid over to the State Board of Education and may be used for other purposes authorized by law.

The Rebate Fund shall be held separate and apart from all other funds and accounts of the State Board of Education and shall be subject to a lien in favor of the Registered Owners, but only to secure payment of the Rebate Amount, and the moneys in the Rebate Fund shall be available for use only as herein provided.

The Division, the Board, and the State Board of Education shall not be required to continue to comply with the requirements of this section in the event that the State Board of Education receives an opinion of Bond Counsel that (i) such compliance is no longer required in order to maintain the exclusion from gross income for federal income tax purposes of interest on the Bonds or (ii) compliance with some other requirement will comply with the provisions of the Code in respect of arbitrage rebate, or in the event that any other agency is subsequently designated by proper authority to comply with the requirements of this section.

SECTION 5.06. FURTHER ASSURANCE. The State Board of Education shall, at any and all times so far as it may be authorized by law, pass, make, do, execute, acknowledge and deliver, all and every such further resolutions, acts, deeds, conveyances, assignments, transfers and assurances as may be necessary or desirable for the better assuring, conveying, granting, assigning and confirming all and singular the rights and Pledged Revenues and other moneys, securities and funds pledged or assigned under this Resolution, or which the State Board of Education may hereafter become bound to pledge or assign.

SECTION 5.07. GENERAL. The Division and the State Board of Education covenant that upon the date of issuance of any of the Bonds, all conditions, acts and things required by the Constitution or statutes of the State of Florida or by this Resolution to exist, to have happened and to have been performed precedent to or in the issuance of such Bonds shall exist, have happened and have been performed. The covenants herein made shall be in effect so long as any of the Bonds are Outstanding.

SECTION 5.08. COMPLIANCE WITH RESOLUTION. The State Board of Education and the Division covenant with the Registered Owners of the Bonds that they will take no action except as permitted pursuant to this Resolution which will materially and adversely affect the rights of such Registered Owners so long as Bonds are Outstanding.

SECTION 5.09. COVENANT REGARDING REVENUES FROM FUTURE GAMING ACTIVITIES. The Division covenants that new or enhanced lottery games will be operated by the Florida Department of the Lottery and any lottery revenues received by the State therefrom will be deposited into the Educational Enhancement Trust Fund or any successor to such trust fund as required by the Florida Constitution.

The Division further covenants that any net revenues received by the State from video gaming or any other similar activities, regardless of what entity operates these activities, will first be available for payment of debt service on the Bonds or other payments required pursuant to the Resolution prior to use for any other purpose.

SECTION 5.10. COVENANT RELATING TO PLEDGED REVENUES. The Division covenants that the portion of lottery revenues deposited into the Educational Enhancement Trust Fund will not be reduced below 38 percent of the gross revenue from the sale of lottery tickets and other earned revenue, excluding application processing fees, except upon the written certification of a Lottery Consultant that in its opinion, the amounts deposited into the Educational Enhancement Trust Fund after the reduction would be not less than the amounts projected to be deposited into the Educational Enhancement Trust Fund for each of the next three fiscal years as determined by the Consensus Estimating Conference's estimates of deposits to such fund at the 38 percent rate, prepared in connection with the General Appropriations Act for the session of the Florida Legislature at which such reduction is being considered.

Any subsequent reduction in the contribution rate to the Educational Enhancement Trust Fund shall require a similar certification of a Lottery Consultant except that the certification shall be with respect to the contribution rate then in effect.

Additionally, no reduction in the contribution rate to the Educational Enhancement Trust Fund shall be made unless the Lottery Consultant shall certify that the amount deposited annually into the Educational Enhancement Trust Fund after the reduction would be not less than 200% of the Maximum Annual Debt Service on the Bonds.

**ARTICLE VI
ADDITIONAL BONDS, REFUNDING BONDS
AND ISSUANCE OF OTHER OBLIGATIONS**

SECTION 6.01. ISSUANCE OF ADDITIONAL BONDS. The Division shall have the power to issue Additional Bonds, after the issuance of the first Series of Bonds issued pursuant to this Resolution, for the purpose of financing the cost of educational facilities, or for the purpose of refunding Outstanding Bonds, but only under the following terms, limitations and conditions:

(A) The State Board of Education shall request the issuance of such Additional Bonds.

(B) The Board shall approve the fiscal sufficiency of the Additional Bonds prior to the sale thereof in accordance with Florida law.

(C) The State Board of Education must be current in all deposits into the various funds and accounts and all payments theretofore required to have been deposited or made by it under the provisions of this Resolution, except payments made pursuant to Section 4.03(6) hereof, and the State Board of Education must be currently in compliance with the covenants and provisions of this Resolution, or upon the issuance of such Additional Bonds the State Board of Education will be current in all such deposits and payments and will be brought into compliance with all such covenants and provisions.

(D) A certificate shall be filed with the Board and the Division signed by an Authorized Officer of the State Board of Education or other appropriate State official setting forth the amount of Pledged Revenues which would have been available to the State Board of Education during the immediately preceding Fiscal Year or any 12 consecutive months selected by the State Board of Education out of the 24 months immediately preceding the date of the issuance of such Additional Bonds.

(E) The Division must determine that the amount of Pledged Revenues available pursuant to the certificate described in subsection (D) shall exceed 300% of the aggregate Maximum Annual Debt Service for all Bonds then Outstanding and the Additional Bonds proposed to be issued.

In making the determination of this subsection (E), the debt service on the Bonds to be refunded or defeased from the proceeds of the Additional Bonds proposed to be issued will not be counted in addition to the debt service requirement of the Additional Bonds issued to refund such Bonds.

SECTION 6.02. ADDITIONAL BONDS SECURED BY ORIGINAL RESOLUTION. All such Additional Bonds shall be deemed to have been issued pursuant to this Resolution authorizing the issuance of the Bonds. All of the provisions of this Resolution (except as to details inconsistent therewith) shall be deemed to be part of the proceedings authorizing such Additional Bonds, and except as to any necessary differences such as in the maturities thereof, or the rate or rates of interest, or the provisions for redemption or purchase, such Additional Bonds shall be on a parity as to lien on the Pledged Revenues and shall be entitled to the same benefit and security of this Resolution as the Bonds originally authorized and issued pursuant to this Resolution. Provided, however, that nothing in this Resolution shall prohibit the issuance of Additional Bonds of a type different from those financed by Bonds originally issued pursuant to this Resolution.

SECTION 6.03. REFUNDING BONDS. All of the Bonds originally issued pursuant to this Resolution then Outstanding, together with all Additional Bonds theretofore issued and then Outstanding, may be refunded as a whole or in part. This section shall not be construed as a limitation on the Division's authority to (a) issue refunding obligations the lien of which on the Pledged Revenues is junior to the Bonds, (b) issue refunding Bonds for the purpose of refunding obligations the lien of which on the Pledged Revenues is junior to the Bonds, or (c) refund other obligations.

If the Annual Debt Service Requirement of the refunding Bonds in each Fiscal Year is equal to or less than the Annual Debt Service Requirement of the refunded Bonds, then the provisions of Section 6.01(C), (D) and (E) of this Resolution shall not apply to the issuance of such refunding Bonds.

If the Annual Debt Service Requirement of the refunding Bonds in any Fiscal Year is greater than the Annual Debt Service Requirement of the refunded Bonds, then all of the provisions of Section 6.01 of this Resolution shall apply to the issuance of such refunding Bonds.

SECTION 6.04. ISSUANCE OF OTHER OBLIGATIONS. The Division and State Board of Education covenant that they will not issue any other obligations, except Additional Bonds, nor voluntarily create or cause to be created any other debt, lien, pledge, assignment, encumbrance or other charge, having priority to or being on a parity with the lien of the Bonds upon the Pledged Revenues pledged as security for the Bonds in this Resolution. Any such other obligations hereafter issued by the Division and the State Board of Education secured by the Pledged Revenues, in addition to the Bonds authorized by this Resolution and such Additional Bonds provided for in this Resolution, shall contain an express statement that such obligations are junior, inferior, and subordinate to the Bonds theretofore or thereafter issued, as to lien on and source and security for payment from the Pledged Revenues defined herein.

ARTICLE VII DISCHARGE OF RESOLUTION

SECTION 7.01. DEFEASANCE. The covenants, liens and pledges entered into, created or imposed pursuant to this Resolution may be fully discharged and satisfied with respect to any of the Bonds in any one or more of the following ways:

- (a) By paying the principal of and interest on such Bonds when the same shall become due and payable;
- or
- (b) By depositing with the Board certain moneys which are irrevocably pledged to the payment of such Bonds and which, together with other moneys lawfully available therefor, shall be sufficient at the time of such deposit to pay when due the principal of, redemption premium, if any, and interest due and to become due on such Bonds on or prior to the redemption date or maturity date thereof; or
 - (c) By depositing with the Board moneys which are irrevocably pledged to the payment of such Bonds and which, together with other moneys lawfully available therefor when invested in Defeasance Obligations, will provide moneys (principal and interest thereof at maturity) which shall be sufficient to pay the principal of, redemption premium, if any, and interest due and to become due on such Bonds on or prior to a date fixed for redemption or the maturity date thereof.

Upon such payment or deposit in the amount and manner provided in this section, the Bonds with respect to which payments or deposits have been made shall be deemed to be paid and shall no longer be deemed to be Outstanding for the purposes of this Resolution and all liability of the State Board of Education and the Division with respect to such Bonds shall cease, terminate and be completely discharged and extinguished, and the Registered Owners thereof shall be entitled for payment solely out of the moneys or securities so deposited.

(d) As to Variable Rate Bonds, whether discharged and satisfied under the provisions of subsection (a), (b) or (c) above, the amount required for the interest thereon shall be calculated at the Maximum Interest Rate permitted by the terms of the provisions which authorized the issuance or sale of such Variable Rate Bonds; provided, however, that if on any date, as a result of such Variable Rate Bonds having borne interest at less than such Maximum Interest Rate for any period, the total amount of moneys and Defeasance Obligations on deposit for the payment of interest on such Variable Rate Bonds is in excess of the total amount which would have been required to be deposited on such date in respect of such Variable Rate Bonds in order to fully discharge and satisfy such Bonds pursuant to the provisions of this section, the State Board of Education or the Board may use the amount of such excess free and clear of any trust, lien, security interest, pledge or assignment securing said Variable Rate Bonds or otherwise existing under this Resolution.

(e) Notwithstanding the foregoing, all references to the discharge and satisfaction of Bonds shall include the discharge and satisfaction of any Series of Bonds, any portion of any Series of Bonds, any maturity or maturities of any Series of Bonds, any portion of a maturity of any Series of Bonds or any combination thereof.

(f) If any portion of the moneys deposited for the payment of the principal of, redemption premium, if any, and interest on any portion of Bonds is not required for such purpose, the State Board of Education or the Board may use the amount of such excess free and clear of any trust, lien, security interest, pledge or assignment securing said Bonds or otherwise existing under this Resolution.

Nothing herein shall be deemed to require the State Board of Education or Division to call any of the Bonds for redemption prior to maturity pursuant to any applicable optional redemption provisions, or to impair the discretion of the State Board of Education or Division in determining whether to exercise any such option for early redemption.

SECTION 7.02. SURVIVAL OF CERTAIN PROVISIONS. Notwithstanding the foregoing, any provisions of this Resolution which relate to the maturity of Bonds, interest payments and dates thereof, optional and mandatory redemption provisions, credit against mandatory redemption requirements, exchange, transfer and registration of Bonds, replacement of mutilated, destroyed, lost or stolen Bonds, the safekeeping and cancellation of Bonds, non-presentment of Bonds, the holding of moneys in trust, the calculation of the Rebate Amount and the paying of the Rebate Amount to the United States, shall remain in effect and be binding upon the State Board of Education, the Division, the Board, the Bond Registrar/Paying Agent and the Registered Owners notwithstanding the release and discharge of the lien and pledge of this Resolution or any subsequent resolution. The provisions of this Article shall survive the release, discharge and satisfaction of this Resolution or any subsequent resolution.

ARTICLE VIII MISCELLANEOUS

SECTION 8.01. COMPLIANCE WITH THE RESERVE ACCOUNT CREDIT FACILITY AND THE BOND INSURANCE POLICY. As long as the State Board of Education shall have a Reserve Account Credit Facility on deposit in the Debt Service Reserve Account the State Board of Education covenants that it will comply with the provisions of the Reserve Account Credit Facility.

As long as any Series of Bonds are insured by a Bond Insurance Policy the State Board of Education covenants to comply with the requirements and conditions of the Bond Insurance Policy.

SECTION 8.02. MODIFICATION OR AMENDMENT. Except as otherwise provided in the second and third paragraphs of this section, no materially adverse modification or amendment of this Resolution, or of any resolution amendatory thereof or supplemental thereto, may be made without the consent in writing of (i) the Registered Owners of more than fifty percent in aggregate principal amount of the Bonds then Outstanding or (ii) in case less than all of the Registered Owners of Bonds then Outstanding will suffer a material adverse effect on account of such modification or amendment, the Registered Owners of more than fifty percent in aggregate principal amount of the Bonds so affected and Outstanding at the time such consent is given; provided, however, that no modification or amendment shall permit a change in the maturity of such Bonds or a reduction in the rate of interest thereon, or affecting the promise to pay the interest on and principal of the Bonds, as the same mature or become due, from the Pledged Revenues, or reduce the percentage of Registered Owners of Bonds required above for such modification or amendments, without the consent of the Registered Owners of all the Bonds so affected.

For purposes of this section, except where the consent of all Registered Owners of a Series of Bonds is required, to the extent any Series of Bonds is insured by a Bond Insurance Policy and such Series of Bonds is then rated in as high a rating category as the rating category in which such Series of Bonds was rated at the time of initial delivery thereof by a Rating Agency, then the consent of the issuer of the Bond Insurance Policy shall constitute the consent of the Registered Owners of such Series.

Notwithstanding the foregoing, this Resolution may be amended, changed, modified and altered without the consent of the Registered Owners of Bonds, (i) to cure any defect, omission, conflict, or ambiguity in this Resolution or between the terms and provisions hereof and any other document executed or delivered herewith, (ii) to provide other changes including such changes as may be necessary in order to adjust the terms hereof so as to facilitate the issuance of various types of Bonds including, but not limited to, Variable Rate Bonds, Capital Appreciation Bonds, Taxable Bonds, and any other Bonds which may be issued hereunder, which will not materially adversely affect the interest of such Registered Owners of Bonds, (iii) to provide for the issuance of Bonds in coupon form if, in the opinion of Bond Counsel, such issuance will not affect the exemption from federal income taxation of interest on the Bonds, except Taxable Bonds, (iv) to obtain credit enhancements or a higher rating in one of the three highest full rating categories of a Rating Agency, (v) to add to the covenants and agreements of the Division, the State Board of Education, or the Board in this Resolution, other covenants and agreements to be observed by the Division, the State Board of Education, or the Board which are not contrary to or inconsistent with this Resolution as theretofore in effect, (vi) to add to the limitations and restrictions in this Resolution, other limitations and

restrictions to be observed by the Division, the State Board of Education, or the Board which are not contrary to or inconsistent with this Resolution as theretofore in effect, (vii) to permit the qualification hereof and thereof under the Trust Indenture Act of 1939, as amended, or any similar federal statute hereafter in effect or to permit the qualification of the Bonds for sale under the securities laws of any of the states of the United States of America, (viii) to achieve compliance with any applicable federal securities or tax law, (ix) to enable the Division to provide for sub-accounts in the Debt Service Reserve Account for one or more Series of Bonds, (x) to specify and determine any matters and things relative to the Bonds which are not contrary to or inconsistent with this Resolution and which shall not materially adversely affect the interests of the Registered Owners, (xi) to grant to or confer upon any or all of the Registered Owners any additional security that may lawfully be conferred upon such Registered Owners, and (xii) to amend or modify any provisions of this Resolution so long as such amendment or modification does not materially adversely affect the interests of the Registered Owners.

SECTION 8.03. USE OF ADDITIONAL FUNDS FOR DEBT PAYMENT. Nothing herein contained shall preclude the State Board of Education, the Division or the Board from using any legally available funds, in addition to the Pledged Revenues, which may come into their possession, including the proceeds of sale of refunding Bonds, contributions, or grants, for the purpose of payment of principal of and interest on the Bonds, or the purchase or redemption of such Bonds in accordance with the provisions of this Resolution.

SECTION 8.04. SEVERABILITY OF INVALID PROVISIONS. If any one or more of the covenants, agreements, or provisions of this Resolution shall be held contrary to any express provision of law or contrary to the policy of express law, though not expressly prohibited, or against public policy, or shall for any reason whatsoever be held invalid, then such covenants, agreements, or provisions shall be null and void and shall be deemed separable from the remaining covenants, agreements, or provisions, and shall in no way affect the validity of all the other provisions of this Resolution or of the Bonds issued hereunder.

SECTION 8.05. NONPRESENTMENT OF BONDS; FUNDS HELD FOR BONDS AFTER DUE DATE OF BONDS. In the event any Bond shall not be presented for payment when the principal thereof becomes due, either at maturity, or otherwise, if funds sufficient to pay such Bond shall have been made available to the Board for the benefit of the Registered Owner thereof, all liability of the State Board of Education to the Registered Owner thereof for the payment of such Bond shall forthwith cease, terminate, and be completely discharged, and thereupon it shall be the duty of the Board to hold such funds, without liability for interest thereon, for the benefit of the Registered Owner of such Bond, who shall thereafter be restricted exclusively to such funds, for any claim of whatever nature on his part under this Resolution or on, or with respect to, said Bond. Any such funds held by the Board for the Registered Owners of such Bonds after the principal or Accreted Value of the respective Bonds for which such funds have been so set aside has become due and payable and remaining (whether at maturity or upon redemption or otherwise) shall be subject to the laws of the State relating to disposition of unclaimed property, and unless proper demand for the payment of such Bonds shall have been made, the obligation thereon shall be extinguished.

SECTION 8.06. BOND ANTICIPATION NOTES. Notwithstanding any other provision of this Resolution, if the Division shall deem it advisable, short-term obligations (hereinafter "Notes") are hereby authorized to be issued by the Division in anticipation of the sale and delivery of Bonds. The Notes shall be payable from the proceeds received from the sale of the Bonds and, in the interim, from the Pledged Revenues. The Notes may be issued in such denomination or denominations, in the aggregate principal amount not exceeding the authorized principal amount of Bonds for the Series for which such Notes are issued, in the form, may bear interest at the lawful rate or rates payable on such dates (not to exceed five (5) years from the date of issue) and may be subject to such conditions and terms as the Division shall deem necessary or desirable in connection with such Notes, all as shall be determined pursuant to resolution of the Division adopted at or before sale of the Notes, in accordance with Section 215.68(7), Florida Statutes.

SECTION 8.07. CAPITAL APPRECIATION BONDS. For the purposes of (i) receiving payment of the redemption price if a Capital Appreciation Bond is redeemed prior to maturity, (ii) computing the amount of the Maximum Annual Debt Service, (iii) computing the amount of the Average Annual Debt Service, and (iv) determining the principal amount of Bonds held by the Registered Owner of a Capital Appreciation Bond for giving to the State Board of Education any notice, consent, request or demand pursuant to this Resolution for any purpose whatsoever, the principal amount of a Capital Appreciation Bond shall be deemed to be its Accreted Value.

SECTION 8.08. STATE BOARD OF EDUCATION TO REPURCHASE OBLIGATIONS. The State Board of Education and the Board shall have the power to purchase Bonds and other obligations out of any funds available therefor.

The State Board of Education and the Board may hold, cancel or resell such Bonds and other obligations subject to and in accordance with the proceedings of the Division.

SECTION 8.09. VALIDATION AUTHORIZED. The Division is herein and hereby authorized to institute proceedings to validate the Bonds or any Series thereof.

SECTION 8.10. CONTINUING DISCLOSURE. (A) In order to comply with Rule 15c2-12 of the Securities and Exchange Commission, the State Board of Education hereby agrees to provide or cause to be provided such information as may be required, from time to time, under such rule.

(B) The appropriate officer of the State Board of Education, in conjunction with the appropriate officer of the Division, is authorized and directed to execute and deliver any documents or agreements which are necessary to comply with the requirements of Rule 15c2-12 of the Securities and Exchange Commission.

SECTION 8.11. SUBSTITUTE FOR MAILING. If, because of the temporary or permanent suspension of postal service, any person shall be unable to mail any notice required to be given by the provisions of this Resolution, such person shall give notice in such other manner as in its judgement shall most effectively approximate such mailing; and the giving of such notice in such manner shall for all purposes of this Resolution be deemed to be in compliance with the requirement for the mailing thereof.

SECTION 8.12. INSTRUMENTS OF REGISTERED OWNERS. Any writing, including without limitation, any consent, request, direction, approval, objection or other instrument or document, required under this Resolution to be executed by any Registered Owner may be in any number of concurrent writings of similar tenor and may be executed by that Registered Owner in person or by an attorney-in-fact appointed in writing. Proof of (i) the execution of any writing, including without limitation, any consent, request, direction, approval, objection or other instrument or document, (ii) the execution of any writing appointing any attorney-in-fact, and (iii) the ownership of Bonds, shall be sufficient for any of the purposes of this Resolution, if made in the following manner, and if so made, shall be conclusive in favor of the State Board of Education, the Division, and the Board with regard to any action taken thereunder, namely:

(a) the fact and date of the execution by any person of any writing may be proved by the certificate of any officer in any jurisdiction, who has the power by law to take acknowledgments within that jurisdiction, that the person signing the writing acknowledged that execution before that officer, or by affidavit of any witness to that execution; and

(b) the fact of ownership of Bonds of any Series shall be proved by the Bond Registrar/Paying Agent for such Series.

SECTION 8.13. GOVERNING LAW. The laws of the State shall govern the construction of this Resolution and of all Bonds issued hereunder.

SECTION 8.14. REPEAL OF INCONSISTENT RESOLUTIONS. All resolutions and parts of resolutions heretofore adopted pertaining to the subject matter of this Resolution, to the extent that they are inconsistent with this Resolution, are hereby repealed, revoked, and rescinded.

SECTION 8.15. EFFECTIVE DATE. This Resolution shall take effect immediately upon its adoption.

Adopted on December 16, 1997, as amended and as further amended, supplemented and restated on December 18, 2007.

**DIVISION OF BOND FINANCE OF THE
STATE BOARD OF ADMINISTRATION
OF FLORIDA**

**A RESOLUTION
(THE NINTH SUPPLEMENTAL RESOLUTION)
AUTHORIZING THE ISSUANCE AND SALE OF
STATE OF FLORIDA, STATE BOARD OF EDUCATION
LOTTERY REVENUE REFUNDING BONDS,
SERIES (TO BE DETERMINED)**

August 2, 2011

TABLE OF CONTENTS

Page

**ARTICLE I
DEFINITIONS, AUTHORITY, RESOLUTION TO CONSTITUTE CONTRACT**

SECTION 1.01. DEFINITIONS 1
SECTION 1.02. AUTHORITY FOR THIS RESOLUTION 3
SECTION 1.03. RESOLUTION TO CONSTITUTE CONTRACT 3

**ARTICLE II
AUTHORIZATION, TERMS, EXECUTION,
REGISTRATION, TRANSFER, ISSUANCE AND FORM OF BONDS,
AUTHORIZATION TO EXECUTE ESCROW DEPOSIT AGREEMENT, AND
APPLICABILITY OF THE ORIGINAL RESOLUTION**

SECTION 2.01. AUTHORIZATION OF ISSUANCE AND
SALE OF REFUNDING BONDS 3
SECTION 2.02. AUTHORIZATION TO EXECUTE AND DELIVER AN
ESCROW DEPOSIT AGREEMENT; DESIGNATION OF
ESCROW AGENTS 7
SECTION 2.03. APPLICABILITY OF ARTICLE II OF THE
ORIGINAL RESOLUTION 8

**ARTICLE III
APPLICATION OF PROCEEDS**

SECTION 3.01. APPLICATION OF REFUNDING BONDS PROCEEDS 8

**ARTICLE IV
SECURITY FOR THE BONDS**

SECTION 4.01. REFUNDING BONDS ON A PARITY WITH THE
OUTSTANDING BONDS 9
SECTION 4.02. REFUNDING BONDS SECURED BY
ORIGINAL RESOLUTION 9

**ARTICLE V
MISCELLANEOUS**

SECTION 5.01. RESOLUTION NOT ASSIGNABLE 9
SECTION 5.02. MODIFICATION OR AMENDMENT 9
SECTION 5.03. CONTINUING DISCLOSURE 9
SECTION 5.04. SEVERABILITY OF INVALID PROVISIONS 9
SECTION 5.05. FISCAL AGENT 10
SECTION 5.06. REPEAL OF INCONSISTENT RESOLUTIONS 10
SECTION 5.07. SUCCESSOR AGENCIES AND OFFICIALS 10

| | | |
|---------------|---|----|
| SECTION 5.08. | CONFIRMATION OF ORIGINAL RESOLUTION | 10 |
| SECTION 5.09. | AMENDMENT | 10 |
| SECTION 5.10. | RESCISSION OF PRIOR RESOLUTIONS | 10 |
| SECTION 5.11. | EFFECTIVE DATE | 10 |

A RESOLUTION (THE NINTH SUPPLEMENTAL RESOLUTION) AUTHORIZING THE ISSUANCE AND SALE OF STATE OF FLORIDA, STATE BOARD OF EDUCATION, LOTTERY REVENUE REFUNDING BONDS, SERIES (TO BE DETERMINED), REFUNDING ALL OR A PORTION OF CERTAIN OUTSTANDING LOTTERY REVENUE BONDS; AND PROVIDING FOR AN EFFECTIVE DATE.

BE IT RESOLVED BY THE GOVERNOR AND CABINET OF THE STATE OF FLORIDA, AS THE GOVERNING BOARD OF THE DIVISION OF BOND FINANCE OF THE STATE BOARD OF ADMINISTRATION OF FLORIDA:

**ARTICLE I
DEFINITIONS, AUTHORITY, RESOLUTION TO CONSTITUTE CONTRACT**

SECTION 1.01. DEFINITIONS. All of the definitions contained in Article I of the Original Resolution, (as defined herein), in addition to the definitions contained herein and except to the extent inconsistent with or amended by definitions contained herein, shall apply fully to the Outstanding Bonds and the Refunding Bonds (as defined herein).

"2002A Bonds" means the \$150,000,000 State of Florida, State Board of Education Lottery Revenue Bonds, Series 2002A.

"2002B Bonds" means the \$150,000,000 State of Florida, State Board of Education Lottery Revenue Bonds, Series 2002B.

"2002C Bonds" means the \$233,555,000 State of Florida, State Board of Education Lottery Revenue Bonds, Series 2002C.

"2003A Bonds" means the \$200,000,000 State of Florida, State Board of Education Lottery Revenue Bonds, Series 2003A.

"2005A Bonds" means the \$291,425,000 State of Florida, State Board of Education Lottery Revenue Bonds, Series 2005A.

"2006A Bonds" means the \$158,295,000 State of Florida, State Board of Education Lottery Revenue Bonds, Series 2006A.

"2006B Bonds" means the \$148,290,000 State of Florida, State Board of Education Lottery Revenue Refunding Bonds, Series 2006B.

"2007A Bonds" means the \$200,000,000 State of Florida, State Board of Education Lottery Revenue Bonds, Series 2007A.

"2007B Bonds" means the \$250,000,000 State of Florida, State Board of Education Lottery Revenue Bonds, Series 2007B.

"2008A Bonds" means the \$200,000,000 State of Florida, State Board of Education Lottery Revenue Bonds, Series 2008A.

"2008B Bonds" means the \$200,000,000 State of Florida, State Board of Education Lottery Revenue Bonds, Series 2008B.

"2009A Bonds" means the \$300,000,000 State of Florida, State Board of Education Lottery Revenue Bonds, Series 2009A.

"2010A Bonds" means the \$46,070,000 State of Florida, State Board of Education Lottery Revenue Bonds, Series 2010A.

"2010B Bonds" means the \$114,970,000 State of Florida, State Board of Education Lottery Revenue Bonds, Series 2010B.

"2010C Bonds" means the \$243,560,000 State of Florida, State Board of Education Lottery Revenue Refunding Bonds, Series 2010C.

"2010D Bonds" means the \$109,750,000 State of Florida, State Board of Education Lottery Revenue Refunding Bonds, Series 2010D.

"2010E Bonds" means the \$223,425,000 State of Florida, State Board of Education Lottery Revenue Refunding Bonds, Series 2010E.

"2010F Bonds" means the \$169,830,000 State of Florida, State Board of Education Lottery Revenue Refunding Bonds, Series 2010F.

"Assistant Secretary" means an Assistant Secretary of the Division.

"Director" means the Director of the Division or any Assistant Secretary delegated authority by the Director.

"Escrow Deposit Agreement" means the escrow deposit agreement to be entered into by and between the Division and the Board, as trustee, which shall govern and provide for the payment and retirement of the Refunded Bonds.

"Original Resolution" means the Resolution authorizing the issuance of State of Florida, State Board of Education Lottery Revenue Bonds, adopted on December 16, 1997, as supplemented and restated on December 18, 2007, and as amended and supplemented from time to time.

"Outstanding Bonds" means the 2002A through 2010F Bonds.

"Refunded Bonds" means all or a portion of the State of Florida, State Board of Education Lottery Revenue Bonds, Series 2002C and 2003A to be refunded by the Refunding Bonds.

"Refunding Bonds" means the State of Florida, State Board of Education Lottery Revenue Refunding Bonds, Series (to be determined) authorized by this Ninth Supplemental Resolution.

"Resolution" means the Original Resolution, as supplemented and amended through the date of this resolution.

"Ninth Supplemental Resolution" means this resolution adopted by the Governing Board on August 2, 2011, authorizing the Refunding Bonds.

Where the context so requires, words importing singular number shall include the plural number in each case and vice versa, words importing persons shall include firms and corporations, and the masculine includes the feminine and vice versa.

SECTION 1.02. AUTHORITY FOR THIS RESOLUTION. This Ninth Supplemental Resolution is adopted pursuant to the provisions of Article VII, Section 11(d), of the Florida Constitution; Sections 1013.68, 1013.70 and 1013.737, Florida Statutes; the State Bond Act, being Sections 215.57-215.83, Florida Statutes; and other applicable provisions of law; and is supplemental to the Original Resolution.

SECTION 1.03. RESOLUTION TO CONSTITUTE CONTRACT. In consideration of the acceptance of the Refunding Bonds by the Registered Owners, the Resolution shall be deemed to be and shall constitute a contract among the Division, the State Board of Education, and such Registered Owners. The covenants and agreements to be performed by the State Board of Education shall be for the equal benefit, protection, and security of the Registered Owners of any and all of the Outstanding Bonds and the Refunding Bonds, all of which shall be of equal rank and without preference, priority, or distinction as to any of such Bonds over any other thereof, except as expressly provided therein and herein.

**ARTICLE II
AUTHORIZATION, TERMS, EXECUTION,
REGISTRATION, TRANSFER, ISSUANCE, FORM OF BONDS,
AUTHORIZATION TO EXECUTE ESCROW DEPOSIT AGREEMENT, AND
APPLICABILITY OF ORIGINAL RESOLUTION**

SECTION 2.01. AUTHORIZATION OF ISSUANCE AND SALE OF REFUNDING BONDS. (A) Subject and pursuant to the provisions of the Resolution, fully registered revenue bonds of the State Board of Education to be known as "State of Florida, State Board of Education Lottery Revenue Refunding Bonds, Series (to be determined) (or such other designation as may be determined by the Director), are hereby authorized to be issued and to be sold at public sale in an aggregate principal amount not exceeding \$268,000,000 on a date and at the time to be set out or provided for in the Notice of Bond Sale to be published as provided in this Ninth Supplemental Resolution. The Refunding Bonds shall be sold to refund the Refunded Bonds. The maturities or portions of maturities to be refunded shall be as determined by the Director to be in the best financial interest of the State. The redemption of the Refunded Bonds on or after their first call date is hereby authorized.

(B) The Director is hereby authorized to determine the most advantageous date and time of sale and to publish the Notice of Bond Sale of the Refunding Bonds, or an abbreviated version thereof, in *The Bond Buyer*, New York, New York, or another financial journal, such publication to be not less than 10 days prior to the date of sale; and to publish such Notice of Bond Sale in such other newspapers on such date as may be deemed appropriate by the Director; provided, that if no bids are received at the time and place called for in the Notice of Bond Sale, or if all bids received are rejected, such Refunding Bonds may again be offered for sale upon reasonable notice, the timing and manner of which shall be determined by the Director. Bids for the purchase of the Refunding Bonds will be received at the office of the Division or at another location designated in the Notice of Bond Sale, until the time and date of sale specified or provided for in the Notice of Bond Sale. Any prior publication of a Notice of Bond Sale, or abbreviated version thereof, is hereby ratified.

(C) The Director is hereby authorized to publish and distribute a Notice of Bond Sale and a proposal for the sale of the Refunding Bonds. The Notice of Bond Sale shall be in such form as shall be determined by the Director and shall contain such information as is consistent with the terms of the Resolution which the Director determines is in the best financial interest of the State. Any prior distribution of a Notice of Bond Sale and proposal for sale is hereby ratified.

(D) The Director is hereby authorized to prepare and distribute preliminary and final official statements in connection with the public offering of the Refunding Bonds. The Director is further authorized and directed to amend, supplement or complete the information contained in the preliminary official statement, as may be needed, and to furnish such certification as to the completeness and finality of the preliminary official statement as is necessary to permit the successful bidder to fulfill its obligations under any applicable securities laws. The Chairman and Secretary of the Governing Board and the Director are hereby authorized to execute the final official statement in connection with the public offering of the Refunding Bonds, and the execution thereof by any of the authorized individuals shall be conclusive evidence that the Governing Board has approved the form and content of the final official statement and that the final official statement is complete as of its date.

(E) The Director is hereby authorized to have up to 1,500 copies of the preliminary official statement and 3,500 copies (plus such additional copies as may be requested by the successful bidder at the expense of the successful bidder) of the final official statement relating to the public offering of the Refunding Bonds printed and distributed; to contract with national rating services and providers of municipal bond insurance and Reserve Account Credit Facilities; to retain bond counsel; to make a determination that the preliminary official statement is "deemed final" for purposes of SEC Rule 15c2-12(b)(1); to conduct information meetings; and to take such other actions as may be deemed appropriate for the dissemination of information relating to the sale of the Refunding Bonds. Any prior printing and distribution of a preliminary official statement is hereby ratified.

(F) The Secretary or any Assistant Secretary of the Governing Board is hereby authorized and empowered to award said Refunding Bonds when offered, on his determination of the best proposal, as defined in the Notice of Bond Sale, submitted in accordance with the terms of the Notice of Bond Sale provided for herein, and such award shall be final. The Director or any Assistant Secretary of the Governing Board shall report such sale to the Governing Board after award of the Refunding Bonds. The Secretary or any Assistant Secretary of the Governing Board is authorized

to deliver such Refunding Bonds to the purchasers thereof upon payment of the purchase price, together with any accrued interest to the date of delivery, and to distribute the proceeds of the Refunding Bonds as provided by this resolution and other proceedings authorizing the issuance of the Refunding Bonds.

(G) The Chairman and the Secretary or any Assistant Secretary of the Governing Board are hereby authorized to execute the Refunding Bonds in the manner provided by the Resolution and to deliver such Bonds to the purchasers thereof upon payment of the purchase price, together with any accrued interest to the date of delivery, and to distribute the proceeds of the Bonds as provided by the Resolution and other proceedings authorizing the issuance of the Bonds.

(H) A certificate as to the approval of the issuance of the Refunding Bonds, shall be executed by the facsimile signature of the Secretary of the Governing Board, an Assistant Secretary, or as otherwise provided by law.

(I) Until definitive obligations are ready for delivery, there may be executed and delivered to the purchasers, in lieu of definitive obligations and subject to the same limitations and conditions, one or more temporary Refunding Bonds, in one or more denominations totaling the aggregate principal amount of the Refunding Bonds to be issued, maturing in installments and bearing interest with respect to each installment, in substantially the same tenor as otherwise herein authorized for the Refunding Bonds, and with such omissions, insertions and variations as may be required. If temporary obligations are issued, the definitive obligations will be prepared and executed and, upon presentation of temporary obligations, the Director shall provide for cancellation of the temporary obligations and deliver to the holders thereof definitive obligations of an equal aggregate principal amount, bearing appropriate characteristics as herein authorized and as sold to the purchasers thereof. Until so exchanged, the temporary obligations shall in all respects be entitled to the same benefit and security as the definitive obligations. Interest and principal installments on the temporary obligations, when due and payable, if the definitive obligations are not then ready for exchange, shall be paid upon presentation of the temporary obligations to the Registrar/Paying Agent, and notation of such payment shall be endorsed thereon. The temporary obligations shall be in such form and denominations as shall be determined by the Director, and shall be executed by the officers who will execute the definitive obligations, which execution is hereby authorized.

(J) U.S. Bank Trust National Association, or its successor, is hereby designated as Bond Registrar/Paying Agent for the Refunding Bonds on the terms and conditions set forth in the Registrar, Paying Agent and Transfer Agreement by and between the Board of Administration and U.S. Bank Trust National Association or its successor.

(K) The Interest Payment Dates and the Principal Payment Dates for the Refunding Bonds shall be as set forth in the Notice of Bond Sale. Interest on the Refunding Bonds shall be paid by check or draft mailed on the Interest Payment Date (or, in certain cases, may be paid by wire transfer at the election of a Registered Owner, other than a securities depository, in the manner and under the terms provided for in the State's agreement with the Bond Registrar/Paying Agent, provided that such Registered Owner advances to the Bond Registrar/Paying Agent the amount, if any, necessary to pay the wire charges or authorizes the paying agent to deduct the amount of such payment) to the

Registered Owner thereof as of 5:00 p.m. New York time on the Record Date shown on the registration books maintained by the Bond Registrar/Paying Agent for the Refunding Bonds.

(L) The Refunding Bonds shall be dated, shall mature in such years and amounts and shall bear interest commencing on such date as set forth or provided for in the Notice of Bond Sale, a copy of which, as published, shall be retained in the files of the Division with this Ninth Supplemental Resolution. The Refunding Bonds shall be issued in denominations of \$1,000 or any integral multiple thereof unless otherwise provided in the Notice of Bond Sale. The Refunding Bonds shall be payable at the corporate trust office of U.S. Bank Trust National Association, New York, New York, or its successor.

(M) The Refunding Bonds shall be subject to redemption as provided in the Notice of Bond Sale. The Notice of Bond Sale shall contain such redemption provisions as shall be determined by the Director to be in the best financial interest of the State. Upon election by the successful bidder as provided in the Notice of Bond Sale, a portion of the Refunding Bonds identified in such election may be designated as Term Bonds. Additionally, in lieu of mailing the notice of redemption, the Bond Registrar/Paying Agent may elect to provide such notice by electronic means to any Registered Owner who has consented to such method of receiving notices.

(N) The incremental increase in the Reserve Requirement attributable to the Refunding Bonds (if any) shall be funded with proceeds of the Refunding Bonds, amounts previously on deposit in a reserve account on behalf of the Refunded Bonds, a Reserve Account Credit Facility, or some combination thereof, as determined by the Director. The incremental increase in the Reserve Requirement attributable to the Refunding Bonds shall be deposited in the Reserve Account which was created by Section 4.01 of the Original Resolution. Amounts on deposit in the Reserve Account may be commingled with the amounts deposited for Bonds of additional Series which are secured thereby, shall be held for the benefit of the Registered Owners of only such Bonds as may be specifically secured by the Reserve Account, and shall be applied in the manner provided in the Resolution.

Notwithstanding the provisions of the Original Resolution, the Reserve Account for the Refunding Bonds authorized by this Ninth Supplemental Resolution shall be funded in an amount determined by the Director, which shall not exceed the Debt Service Reserve Requirement for the Refunding Bonds. Such amount may be zero. The amount of the Reserve Requirement funded from the proceeds of the Refunding Bonds shall not exceed the amount permitted under the Code.

(O) The Reserve Requirement for the Refunding Bonds, if any, shall be deposited, as determined by the Director, in either a subaccount in the Reserve Account established for any of the Outstanding Bonds or in a subaccount in such Reserve Account which is hereby established for the Refunding Bonds. Amounts on deposit in any subaccount in the Reserve Account may be commingled with the amounts deposited for Bonds of additional Series which are secured thereby, shall be held for the benefit of the Registered Owners of only such Bonds as may be specifically secured by the respective subaccount, and shall be applied in the manner provided in the Resolution.

(P) Any portion of the Refunding Bonds may be issued as a separate series, provided that the Refunding Bonds of each series shall be numbered consecutively from one upward. The Refunding

Bonds referred to herein may be sold separately or combined with any other Bonds authorized by the Division to be sold.

(Q) The Director is hereby authorized to offer for sale a lesser principal amount of Refunding Bonds than that set forth in this resolution and to adjust the maturity schedule and redemption provisions for the Refunding Bonds, if necessary, to reflect the issuance of such lesser amount, and to modify the Notice of Bond Sale as may be required. Any portion of the Refunding Bonds not offered shall remain authorized to be offered at a later date.

(R) The Director is authorized to provide in the Notice of Bond Sale of the Refunding Bonds that the purchase price for the Refunding Bonds may include a discount of not to exceed 3%, excluding original issue discount, if any, of the aggregate principal amount of such Refunding Bonds offered for sale.

(S) The Chairman, Secretary and any Assistant Secretary of the Governing Board, the Director, and such other officers and employees of the Division as may be designated by the Governing Board as agents of the Division in connection with the issuance and delivery of the Refunding Bonds, are authorized and empowered, collectively or individually, to take all actions and steps, to execute all instruments, documents, and contracts, and to take all other action on behalf of the Division, in each case as they may deem necessary or desirable, in connection with the execution and delivery of the Refunding Bonds, including but not limited to, contracting with a consultant to verify escrow calculations of the Refunding Bonds, retaining bond counsel to render a special tax opinion relating to the use of the proceeds from the sale of the Refunding Bonds, and providing for redemption of the Refunded Bonds. Notwithstanding anything contained in the Resolution to the contrary, it is the intent of the Division that interest on the Refunding Bonds be and remain excluded from gross income for federal income tax purposes and therefore to comply with all requirements of federal tax law applicable to the Refunding Bonds, whether such requirements are now in effect, pending or subsequently enacted. The Division is hereby authorized and directed to take all actions necessary with respect to the Refunding Bonds to comply with such requirements of federal tax law.

SECTION 2.02. AUTHORIZATION TO EXECUTE AND DELIVER AN ESCROW DEPOSIT AGREEMENT; DESIGNATION OF ESCROW AGENTS. The Chairman and Secretary or an Assistant Secretary of the Governing Board and such other officers and employees of the Division as may be designated by the Governing Board as agents of the Division are hereby each authorized to execute and deliver an Escrow Deposit Agreement on behalf of the Division in such form as may be determined by the Director for the purpose of providing for the deposit of a portion of the proceeds of the Refunding Bonds and such other funds as determined to be necessary into an escrow deposit trust fund for the refunding of the Refunded Bonds. The escrow deposit trust fund shall be held and administered by an escrow agent acceptable to the Director as evidenced by the Director's execution of the Escrow Deposit Agreement.

The proceeds of the Refunding Bonds may be deposited in either Federal Obligations or State Treasury Investments, as determined by the Director. "Federal Obligation" means direct obligations of the United States of America, Resolution Funding Corporation ("REFCORP") interest strips, or direct non-prepayable obligations the principal and interest on which are unconditionally guaranteed as to full and timely payment by the United States of America, none of which permit redemption

prior to maturity at the option of the obligor. "State Treasury Investments" means investments made with the Chief Financial Officer of the State of Florida in a Special Purpose Investment Account pursuant to section 17.61, Florida Statutes.

SECTION 2.03. APPLICABILITY OF ARTICLE II OF THE ORIGINAL RESOLUTION. Except as otherwise provided in this Ninth Supplemental Resolution, the terms, description, execution, negotiability, redemption, authentication, disposition, replacement, registration, transfer, issuance and form of the Refunding Bonds shall be governed by the provisions of Article II of the Original Resolution, adjusted to the extent necessary to apply to the Refunding Bonds.

ARTICLE III APPLICATION OF PROCEEDS

SECTION 3.01. APPLICATION OF REFUNDING BOND PROCEEDS. Upon receipt of the proceeds of the sale of the Refunding Bonds the Division shall transfer and apply such proceeds as follows:

(A) The amount necessary to pay all costs and expenses of the Division in connection with the preparation, issuance, and sale of the Refunding Bonds, including a reasonable charge for the services of the Division for its fiscal services and for arbitrage rebate compliance program set-up, shall be transferred to the Division and deposited in the Bond Fee Trust Fund.

(B) Any accrued interest on the Refunding Bonds shall be transferred to the Board of Administration and deposited in the Sinking Fund, and used for the payment of interest on the Refunding Bonds.

(C) An amount necessary to fund the incremental increase in the Reserve Requirement attributable to the Refunding Bonds (if any), to be held in reserve, shall be transferred to the Board of Administration and deposited in the Reserve Account within the Sinking Fund. Alternatively, the Division, as provided in Section 4.03 of the Original Resolution, may elect at any time to provide in lieu of all or a portion of such funds a Reserve Account Credit Facility in an amount equal to the difference between the Reserve Requirement and the sums then on deposit in the Reserve Account.

(D) An amount together with the interest earnings thereon, and other amounts deposited therein which is anticipated to be sufficient to pay when due (1) the principal amount of the Refunded Bonds, (2) the amount of interest and redemption premium payable on the Refunded Bonds, and (3) the amount of fees and expenses estimated to be incurred in connection with the payment and retirement of the Refunded Bonds shall be transferred and deposited in escrow pursuant to the terms of the Escrow Deposit Agreement.

(E) Any balance of the proceeds of the Refunding Bonds after providing for the requirements of subsections (A) through (D) above shall be transferred to the Sinking Fund and used for the purposes set forth therein.

**ARTICLE IV
SECURITY FOR THE BONDS**

SECTION 4.01. REFUNDING BONDS ON A PARITY WITH THE OUTSTANDING BONDS. The Refunding Bonds shall be payable on a parity, and rank equally as to lien on and source and security for payments from the Pledged Revenues and in all other respects, with the other Outstanding Bonds.

SECTION 4.02. REFUNDING BONDS SECURED BY ORIGINAL RESOLUTION. The Refunding Bonds shall be deemed to have been issued pursuant to the Original Resolution, as supplemented by this Ninth Supplemental Resolution, as fully and to the same extent as the Outstanding Bonds, and all of the covenants and agreements contained in the Original Resolution, as amended and supplemented, shall be deemed to have been made for the benefit of the Registered Owners of the Refunding Bonds as fully and to the same extent as the Registered Owners of the Outstanding Bonds.

All of the covenants, agreements, and provisions of the Original Resolution, as amended and supplemented, except to the extent inconsistent herewith, shall be deemed to be part of this Ninth Supplemental Resolution to the same extent as if incorporated verbatim in this Ninth Supplemental Resolution, and shall be fully enforceable in the manner provided in the Original Resolution, as amended and supplemented, by any of the Registered Owners of the Refunding Bonds.

**ARTICLE V
MISCELLANEOUS**

SECTION 5.01. RESOLUTION NOT ASSIGNABLE. This Ninth Supplemental Resolution shall not be assignable by the Division or the Board of Administration, except for the benefit of the Registered Owners.

SECTION 5.02. MODIFICATION OR AMENDMENT. Modification or amendment hereof shall be governed by Section 8.02 of the Original Resolution.

SECTION 5.03. CONTINUING DISCLOSURE. (A) In order to comply with Rule 15c2-12 of the Securities and Exchange Commission, the Board agrees to provide or cause to be provided such information as may be required, from time to time, under such rule.

(B) The Director, in conjunction with the appropriate officer of the Board, is authorized and directed to execute and deliver any documents or agreement which are necessary to comply with the requirements of Rule 15c2-12 of the Securities and Exchange Commission.

SECTION 5.04. SEVERABILITY OF INVALID PROVISIONS. If any one or more of the covenants or provisions of this Ninth Supplemental Resolution shall be held contrary to any express provision of law or contrary to the policy of express law, though not expressly prohibited, or against public policy, or shall for any reason whatsoever be held invalid, then such covenants or provisions shall be null and void and shall be deemed separable from the remaining covenants or provisions of this Ninth Supplemental Resolution or of the Refunding Bonds and shall in no way

affect the validity or enforceability of any other covenants, agreements or provisions of this Ninth Supplemental Resolution or of the Refunding Bonds issued hereunder.

SECTION 5.05. FISCAL AGENT. Upon the sale and delivery of the Refunding Bonds by the Division on behalf of the State Board of Education, the Board of Administration shall act as the fiscal agent for the State Board of Education with respect to the Refunding Bonds.

SECTION 5.06. REPEAL OF INCONSISTENT RESOLUTIONS. All prior or concurrent resolutions or parts of resolutions inconsistent with this resolution are hereby amended by this resolution, but only to the extent of any such inconsistency.

SECTION 5.07. SUCCESSOR AGENCIES AND OFFICIALS. Any references in the Resolution to offices, bodies, or agencies which have been or are superceded, replaced or abolished by law shall be deemed to refer to the successors of such offices, bodies, and agencies. Any action required or authorized to be taken by an official whose office, body, or agency has been or is so superceded, replaced, or abolished shall be taken by the successor to such official.

SECTION 5.08. CONFIRMATION OF ORIGINAL RESOLUTION. As supplemented by this Ninth Supplemental Resolution, the Original Resolution is in all respects ratified and confirmed, and this Ninth Supplemental Resolution shall be read, taken, and construed as a part of the Original Resolution.

SECTION 5.09. AMENDMENT. The amendment to the Original Resolution adopted through this Ninth Supplemental Resolution does not have a materially adverse effect on the Registered Owners of the Outstanding Bonds. The Registered Owners of the Refunding Bonds will have no claim to the existing Debt Service Reserve subaccounts.

SECTION 5.10. RESCISSION OF PRIOR RESOLUTIONS. The issuance and sale authorization for the unissued portion of the \$540,000,000 State of Florida, State Board of Education Lottery Revenue Refunding Bonds, Series (to be determined) approved in the Eighth Supplemental Authorizing Resolution, adopted by the Division on August 26, 2010, is hereby rescinded.

SECTION 5.11. EFFECTIVE DATE. This Ninth Supplemental Resolution shall take effect immediately upon its adoption.

ADOPTED on August 2, 2011.

[This page intentionally left blank]

DEPARTMENT OF THE LOTTERY

Financial Audit

For the Fiscal Year Ended

June 30, 2010



STATE OF FLORIDA
AUDITOR GENERAL
DAVID W. MARTIN, CPA

Secretary of the Department of the Lottery

The State of Florida, Department of the Lottery (Lottery) was established as a State agency with the enactment of the Florida Public Education Lottery Act (the Act), Chapter 24, Florida Statutes, in 1987. The head of the Lottery is the Secretary, who, pursuant to Section 20.317, Florida Statutes, is appointed by the Governor subject to the confirmation of the Senate. Mr. Leo DiBenigno served as Secretary during the audit period.

The Auditor General conducts audits of governmental entities to provide the Legislature, Florida's citizens, public entity management, and other stakeholders unbiased, timely, and relevant information for use in promoting government accountability and stewardship and improving government operations.

The audit team leader was Robin Ralston, CPA, and the audit was supervised by Haesun Baek, CPA. Please address inquiries regarding this report to Kathryn D. Walker, CPA, Audit Manager, by e-mail at kathrynwalker@aud.state.fl.us or by telephone at (850) 487-9085. For the information technology portion of this audit, the audit team leader was Suzanne Varick, CPA, and the supervisor was Shelly Posey, CISA. Please address inquiries regarding the information technology portions of this report to Jonathan E. Ingram, CPA, CISA, Audit Manager, by e-mail at joningram@aud.state.fl.us or by telephone at (850) 487-9330.

This report and other reports prepared by the Auditor General can be obtained on our Web site at www.myflorida.com/audgen; by telephone at (850) 487-9175; or by mail at G74 Claude Pepper Building, 111 West Madison Street, Tallahassee, Florida 32399-1450.

DEPARTMENT OF THE LOTTERY
TABLE OF CONTENTS

| | PAGE NO. |
|--|-------------|
| EXECUTIVE SUMMARY | i |
| INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS | 1 |
| MANAGEMENT'S DISCUSSION AND ANALYSIS..... | 3 |
| BASIC FINANCIAL STATEMENTS | 13 |
| Statement of Net Assets | 13 |
| Statement of Revenues, Expenses, and Changes in Net Assets..... | 14 |
| Statement of Cash Flows | 15 |
| Notes to Financial Statements | 16 |
| INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i> | 34 |
| MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING..... | 36 |
| SCHEDULE OF FINDINGS | 37 |
| Exhibit – A Management's Response | 38 |

THIS PAGE INTENTIONALLY LEFT BLANK.

EXECUTIVE SUMMARY

Summary of Report on Financial Statements

The financial statements prepared by the Department of the Lottery (Lottery) present fairly, in all material respects, the financial position of the Lottery as of June 30, 2010, and 2009, and the changes in the financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Summary of Report on Internal Control and Compliance

In our opinion, Lottery management maintained, in all material respects, effective internal control over financial reporting.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards; however, we noted certain additional matters as summarized below.

| |
|---------------------------|
| Additional Matters |
|---------------------------|

INFORMATION TECHNOLOGY CONTROLS

Finding No. 1: During our audit, we identified the need for enhancements to the Lottery's information technology (IT) control practices. Specific details of these matters are not disclosed in this report to avoid the possibility of compromising Lottery information. However, the appropriate Lottery personnel have been notified of these issues.

MINORITY RETAILER PARTICIPATION

Finding No. 2: Section 24.113, Florida Statutes, requires that 15 percent of the Lottery's retailers shall be minority business enterprises, as defined in Section 288.703(2), Florida Statutes; however, no more than 35 percent of such retailers shall be owned by the same type of minority person, as defined by Section 288.703(3), Florida Statutes. Our audit disclosed that as of October 6, 2010, retailers comprising one minority type totaled 65 percent of the total number of minority retailers. A similar finding was included in prior reports.

Audit Objectives and Scope

Our audit objectives were to determine whether the Lottery had:

- Presented the Lottery's basic financial statements in accordance with generally accepted accounting principles;
- Established and implemented internal control over financial reporting and compliance with requirements that could have a direct and material effect on the financial statements;
- Complied with the various provisions of laws, rules, regulations, and contracts that are material to the financial statements; and
- Taken corrective actions for findings included in our report No. 2010-082.

The scope of this audit included an examination of the Lottery's basic financial statements as of and for the fiscal years ended June 30, 2010, and 2009, and an examination of the effectiveness of the Lottery's internal control over financial reporting. With respect to internal control over financial reporting, our examination included obtaining an understanding of the internal control over financial reporting, testing and evaluating the design and operating effectiveness of the internal control, and performing such other procedures as we considered necessary in the circumstances. We also examined various transactions to determine whether they were executed, both in manner and substance, in accordance with governing provisions of laws, rules, regulations, and contracts.

Audit Methodology

The methodology used to develop the findings in this report included the examination of pertinent Lottery records in connection with the application of procedures required by auditing standards generally accepted in the United States of America, and applicable standards contained in *Government Auditing Standards* issued by the Comptroller General of the United States.



DAVID W. MARTIN, CPA
AUDITOR GENERAL

AUDITOR GENERAL STATE OF FLORIDA

G74 Claude Pepper Building
111 West Madison Street
Tallahassee, Florida 32399-1450



PHONE: 850-488-5534
FAX: 850-488-6975

The President of the Senate, the Speaker of the
House of Representatives, and the
Legislative Auditing Committee

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Department of the Lottery (Lottery), an enterprise fund of the State of Florida, as of and for the fiscal years ended June 30, 2010, and 2009, as listed in the table of contents. These financial statements are the responsibility of the Lottery's management. Our responsibility is to express opinions on these financial statements based on our audit

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

As discussed in Note 1, the financial statements present only the Lottery and do not purport to, and do not, present fairly the operations of the State of Florida as of June 30, 2010, and 2009, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Lottery as of June 30, 2010, and 2009, and the changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards applicable to attestation engagement in *Government Auditing Standards*, we have also issued a report on our

examination of the Lottery's internal control over financial reporting, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and on our tests of the Lottery's compliance with certain provisions of laws, rules, regulations, contracts, and other matters included under the heading **INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**. One purpose of that report is to describe the scope of our testing of internal control over financial reporting and to provide an opinion thereon. With respect to compliance, the purpose of that report is not to provide an opinion on compliance, but rather to describe the scope of our testing of compliance and the results of that testing. 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.

Accounting principles generally accepted in the United States of America require that the **MANAGEMENT'S DISCUSSION AND ANALYSIS** (pages 3 through 12) be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Respectfully submitted,



David W. Martin, CPA
January 20, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEARS ENDED JUNE 30, 2010, AND JUNE 30, 2009

The information presented in the Management's Discussion and Analysis (MD&A) introduces the Florida Lottery's (Lottery) financial statements and provides readers an analytical overview of the Lottery's financial activities and performance for the fiscal years ended June 30, 2010, and 2009. We encourage readers to consider the information presented here in conjunction with the financial statements and notes to the financial statements, which begin on page 13.

FINANCIAL HIGHLIGHTS

The Lottery has as its mission the maximization of revenues for the benefit of education in a manner consistent with the dignity of the State of Florida and the welfare of its citizens. The Lottery is considered a mature lottery and offers its players a full range of both Scratch-Off and On-line products. The Lottery has been successful in sustaining ticket sales in excess of \$2 billion for the twenty-first consecutive fiscal year, with the past seven fiscal years exceeding \$3 billion. During the same twenty-one year period the transfer to the Educational Enhancement Trust Fund (EETF) has been a minimum of \$800 million annually, with the fiscal year 2010 transfer exceeding \$1 billion for the eighth consecutive year.

For the fiscal year ended June 30, 2010:

- Transfers to the EETF decreased slightly to approximately \$1.25 billion compared to \$1.29 billion in the prior fiscal year.
- The Lottery's ticket sales decreased less than 1% over the prior fiscal year from approximately \$3.94 billion to \$3.90 billion.
- Prize expense increased \$5.8 million, which represents a 0.25% increase during fiscal year 2010. The Lottery has the authority to vary the prize expense in order to maximize transfers. This expense typically increases or decreases in proportion to ticket sales and represented approximately 60.2% of net ticket sales.
- The gaming vendors' fees and retailer commissions are based on sales and therefore fluctuate in direct correlation with sales revenue. Fiscal year 2010 expenses for these items decreased 2.1% from the prior fiscal year expenses.
- Administrative operating expenses, which include advertising, salaries and benefits, rent, utilities and maintenance, professional fees, depreciation, and other administrative expenses, experienced a nominal increase. Administrative operating expenses for fiscal years 2010 and 2009 were \$71.5 million and \$71.2 million, respectively.

- Nonoperating income increased \$45.8 million over the prior fiscal year. Unrealized appreciation on investments accounted for \$44 million of the increase due to higher market values of investments of similar securities in fiscal year 2010 compared to fiscal year 2009.
- EETF transfers from unclaimed prize money decreased \$3 million from the prior fiscal year due primarily to the reduction of unclaimed prize money generated by On-line games. Scratch-Off games generated \$2.2 million additional unclaimed prize money over fiscal year 2009.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Lottery is accounted for as an enterprise fund, reporting transactions using the accrual basis of accounting similar to the method used by business entities. This MD&A is intended to serve as an introduction to the Lottery's basic financial statements, including the notes to the financial statements. The Statement of Net Assets on page 13, the Statement of Revenues, Expenses, and Changes in Net Assets on page 14, and the Statement of Cash Flows on page 15 report the Lottery's net assets and changes therein. The notes to the financial statements provide additional information that is essential to a reader's understanding of the data provided in the financial statements.

The Lottery transfers its net profits each fiscal year to the EETF. As a result, the Lottery's net assets consist of funds invested in fixed capital assets and restricted assets. The restricted net assets consist of the investments being held by the Lottery to fund deferred prize payouts, 20 percent of unclaimed prizes designated for future prize payouts, the Multi-State Lottery Association (MUSL) deposit amount, and a reserve fund established to pay set prize amounts. (Refer to the Net Assets and Changes in Net Assets section of the MD&A for explanation of the elimination of this reserve fund in 2010.) The financial statements do include the cumulative effect of periodic adjustments to recognize the fair value of the grand prize investments despite the fact that the Lottery purchased the investments with the intention of holding the investments until maturity in order to meet future obligations and, therefore, will not realize any gains or losses that will be available for distribution as net proceeds.

SUMMARY OF NET ASSETS

Table 1 presents a comparative summary of the Lottery's Statement of Net Assets for fiscal years 2010, 2009, and 2008.

Table 1
Condensed Statement of Net Assets
As of June 30, 2010, 2009, and 2008
(In Thousands)

| | <u>2010</u> | <u>2009</u> | <u>2008</u> |
|--|--------------------------|--------------------------|--------------------------|
| Assets | | | |
| Current Assets | \$ 176,765 | \$ 173,395 | \$ 188,200 |
| Restricted Assets | 1,745,058 | 1,926,734 | 2,306,205 |
| Capital Assets, Net of Depreciation | <u>1,421</u> | <u>1,235</u> | <u>1,279</u> |
| Total Assets | <u><u>1,923,244</u></u> | <u><u>2,101,364</u></u> | <u><u>2,495,684</u></u> |
| Liabilities | | | |
| Current Liabilities | 171,126 | 173,542 | 187,526 |
| Current Liabilities Payable from Restricted Assets | 1,018,424 | 1,083,453 | 1,310,654 |
| Noncurrent Liabilities | <u>599,586</u> | <u>722,190</u> | <u>837,694</u> |
| Total Liabilities | <u><u>1,789,136</u></u> | <u><u>1,979,185</u></u> | <u><u>2,335,874</u></u> |
| Net Assets | | | |
| Net Investment in Capital Assets | 1,421 | 1,235 | 1,279 |
| Restricted Net Assets | <u>132,687</u> | <u>120,944</u> | <u>158,531</u> |
| Total Net Assets | <u><u>\$ 134,108</u></u> | <u><u>\$ 122,179</u></u> | <u><u>\$ 159,810</u></u> |

Assets

Total assets at the end of fiscal year 2010 decreased \$178.1 million from \$2.1 billion at June 30, 2009, to \$1.9 billion at June 30, 2010. At the end of fiscal year 2009, total assets were \$394 million less than the \$2.5 billion at the end of fiscal year 2008.

- Current assets increased from \$173.4 million in 2009 to \$176.8 million in 2010, representing an increase of \$3.4 million. This net increase was primarily due to an increase of \$30 million in cash and cash equivalents mostly on deposit with the State Board of Administration and a decrease of \$27 million in accounts receivable. The decrease in accounts receivable for fiscal year 2010 was due to fewer days in the billing cycle to retailers when compared to the prior year.
- Restricted assets decreased \$181.7 million from \$1.9 billion in 2009 to \$1.7 billion in 2010. This decrease was predominately due to the continued decrease in the deferred payment investment portfolio as the preference in payout options for jackpot prizewinners progressively shifts toward the cash option instead of the alternative annuity option. There were \$201.7 million in payouts of annuities and \$2.2 million in purchases of new investments in fiscal year 2010 in comparison to fiscal year 2009, which had annuity payouts of \$220.0 million, and purchases of new investments of \$22.1 million. As a result of the downward trend in the investment portfolio, there was also a decrease in the fair value of the grand prize investments of \$145.7 million. Additionally, the amount of invested collateral from the lending of those securities declined. At June

30, 2010, the Lottery held \$749.1 million in invested collateral, \$842.7 million at June 30, 2009, and \$1.1 billion at June 30, 2008.

Liabilities

Total liabilities at June 30, 2010, were \$1.8 billion, which was approximately \$190 million lower than the total liabilities of \$2.0 billion at June 30, 2009. The total liabilities at June 30, 2009, were \$357 million lower than the June 30, 2008, amount of \$2.3 billion.

- Current liabilities decreased from \$173.5 million on June 30, 2009, to \$171.1 million on June 30, 2010. The decrease of \$2.4 million was due to a combination of factors. The most notable change in current liabilities was a decrease of \$24.5 million in the amount due to the EETF at June 30, 2010. However, this decrease was offset primarily by an increase in prizes payable of \$17.1 million. At June 30, 2010, the On-line LOTTO game had an obligation of \$29.1 million related to multiple rollovers with a large jackpot near fiscal year-end. The same liability for the 2009 fiscal year was \$17.1 million. The liability related to Scratch-Off games was \$37.5 million for 2010 and \$27.1 million in 2009.
- As expected, current liabilities payable from restricted assets decreased \$65 million from \$1.08 billion at June 30, 2009, to \$1.02 billion at June 30, 2010. The amount of grand prizes payable due within one year and the obligation under securities lending, which are the two primary components of this liability class, are associated with the amounts payable to jackpot winners who have chosen the deferred payment option. The obligation under securities lending decreased by \$42.1 million and the current portion of grand prizes payable decreased by \$22.4 million. At June 30, 2009, the current liability balance of \$1.08 billion was \$227.2 million less than the balance of \$1.31 billion at June 30, 2008. This decrease was also attributable to a net decrease of \$207.6 million in obligations under securities lending. Noncurrent liabilities principally consist of the long-term portion of grand prizes payable, which represents the amount to be paid to grand prizewinners over future years. Correlative to current grand prizes payable, the long-term grand prizes payable decreased \$123 million from fiscal year-end 2009 to 2010 and decreased \$115.8 million from fiscal year-end 2008 to 2009.

Net Assets and Changes in Net Assets

Net assets increased \$11.9 million from June 30, 2009, to June 30, 2010. Net assets at June 30, 2010, 2009, and 2008 were \$134.1 million, \$122.2 million, and \$159.8 million, respectively.

- The increase was predominately due to the increase in restricted net assets for undistributed appreciation on restricted investments caused by unrealized gains related to grand prize investments. The increase resulted from lower interest rates in fiscal year 2010, which led to higher market values on investments. The Lottery expects this increase in net assets to be short-term and the declining trend to return for the foreseeable future as grand prizewinners consistently choose the cash option when they claim their prizes. The decrease will be amplified as the majority of grand prizewinners that are currently receiving annual payments will be paid off within the next four years. Refer to Note 2 – Cash and Investments in the Notes to the Financial Statements for more details.

- A decrease can be seen in the assets in the restricted prize pool. The elimination of the LOTTO PLUS game during fiscal year 2010 accounts for this decline. The reserve was created as required to support this game; therefore, the \$38.5 million balance remaining after all prizes were paid was transferred to EETF. Refer to Note 1 and Note 8 in the notes to the financial statements for further detail.

The Lottery joined MUSL in the prior fiscal year as required in order to participate in the POWERBALL® with Power Play® game. In accordance with MUSL's rules, the Lottery must contribute to various prize reserves funds maintained by MUSL for unforeseen prize payouts related to the POWERBALL with Power Play game. The Lottery's deposits in reserve funds with MUSL totaled \$9.3 million and \$3.1 million as of June 30, 2010, and June 30, 2009, respectively. Refer to Note 6 in the Notes to the financial statements for further detail.

SUMMARY OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

The most important element demonstrated with the Lottery's financial statements is the transfer to the EETF. Accordingly, the primary focus of these financial statements is determining net income available for transfer, rather than the change in net assets of the Lottery, which primarily reflects the changes in fair value of restricted investments.

Table 2 presents a condensed Summary of Revenues, Expenses, and Changes in Net Assets for the fiscal year ended June 30, 2010, and the prior fiscal years ended June 30, 2009, and June 30, 2008, as derived from the Lottery's Statement of Revenues, Expenses, and Changes in Net Assets.

Table 2
Condensed Statement of Revenues, Expenses, and Changes in Net Assets
As of June 30, 2010, 2009, and 2008
(In Thousands)

| | <u>2010</u> | <u>2009</u> | <u>2008</u> |
|---|--------------------|--------------------|--------------------|
| Operating Revenues | | | |
| Ticket Sales | \$ 3,900,499 | \$ 3,938,037 | \$ 4,174,776 |
| Bad Debt Expense | (1,075) | (1,256) | (674) |
| On-line & Retailer Fees and Miscellaneous | 7,599 | 7,408 | 7,724 |
| Total Operating Revenues | <u>3,907,023</u> | <u>3,944,189</u> | <u>4,181,826</u> |
| Operating Expenses | | | |
| Prizes | 2,346,162 | 2,340,372 | 2,476,032 |
| Retailer Commissions | 216,207 | 220,548 | 235,651 |
| Vendor Commissions | 58,286 | 59,875 | 81,300 |
| Other Expenses | 71,519 | 71,223 | 72,587 |
| Total Operating Expenses | <u>2,692,174</u> | <u>2,692,018</u> | <u>2,865,570</u> |
| Income from Operations | <u>1,214,849</u> | <u>1,252,171</u> | <u>1,316,256</u> |
| Nonoperating Revenue, Net of Expenses | <u>43,874</u> | <u>(1,947)</u> | <u>34,191</u> |
| Income Before Operating Transfers | 1,258,723 | 1,250,224 | 1,350,447 |
| Transfers to EETF from Revenue | (1,203,024) | (1,241,015) | (1,216,839) |
| Transfers to EETF from Unclaimed Prizes | (43,770) | (46,840) | (66,575) |
| Total Transfers to EETF | <u>(1,246,794)</u> | <u>(1,287,855)</u> | <u>(1,283,414)</u> |
| Change in Net Assets | 11,929 | (37,631) | 67,033 |
| Net Assets, Beginning of Year | <u>122,179</u> | <u>159,810</u> | <u>92,777</u> |
| Net Assets, End of Year | \$ 134,108 | \$ 122,179 | \$ 159,810 |

Sales

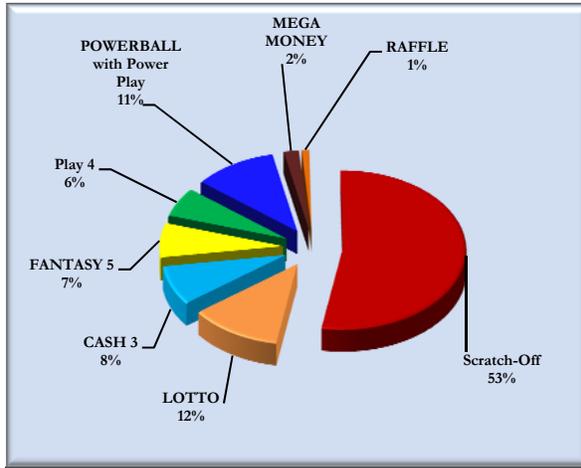
For the fiscal year ended June 30, 2010, ticket sales decreased \$37.5 million, which continues to reflect the downturn in the economy. However, the decrease was an improvement over the \$236.7 million decline experienced from fiscal year 2008 to 2009, which appears to be consistent with the slow recovery of the economic condition in Florida. Sales for On-line products decreased \$51.5 million with decreases in all games except the POWERBALL with Power Play game, which increased \$201 million. This increase was expected since the game began in January of 2009 and only contributed six months of sales in the prior fiscal year. As POWERBALL with Power Play continued to provide an additional revenue source, the first Florida player to become a POWERBALL grand prizewinner was announced in October of 2009 with a \$193 million jackpot. POWERBALL had four rollover series in 2010 that achieved jackpots above \$200 million, while LOTTO had fewer consecutive rollovers and lower jackpots in 2010 when compared to the prior fiscal year. However, combined sales for the two games have been higher than LOTTO sales were prior to POWERBALL beginning.

Sales of Scratch-Off tickets increased slightly from \$2.06 billion for fiscal year 2009, to \$2.08 billion for fiscal year 2010, and were 52.4% and 53.3% of combined sales in each of the two fiscal years, respectively. Despite the decreases primarily in the \$5 and \$10 price points, there was a \$24.9 million increase in the \$1 price point and a notable \$72.9 million increase in the \$3 price point. The \$1 Monopoly game launched in July 2009 dominated in this price point, accounting for more than \$27 million in sales. In the \$3 price point, the Gold Bar Crossword game that was used for the first time in 2009 took the lead with \$32 million in sales. During fiscal year 2009-10, the new \$3 games launched, Match and Win, Power Play Crossword, and Triple Bingo, generated a combined total of \$65 million in sales. The Power Play Crossword game that began in December 2009 produced \$26 million in ticket sales, 40% of this total. The Lottery's October 2009 deployment of 1,000 Instant Ticket Vending Machines (ITVMs), which function similar to other vending machines, had a notable impact on ticket sales during the year. The machines increased the visibility of Scratch-Off ticket products and offered a new convenience to players.

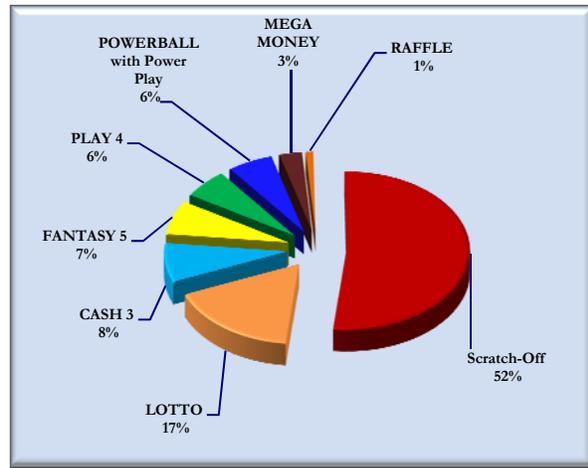
Bad debt expense is reported as a reduction in gross revenue in accordance with Governmental Accounting Standards Board requirements. The amount of bad debt expense for the fiscal years ended June 30, 2010, and 2009, was \$1,075,000 and \$1,256,000, respectively.

The following charts show sales by product for the various Lottery games during fiscal years 2010 and 2009:

Sales by Product for Fiscal Year 2009-10

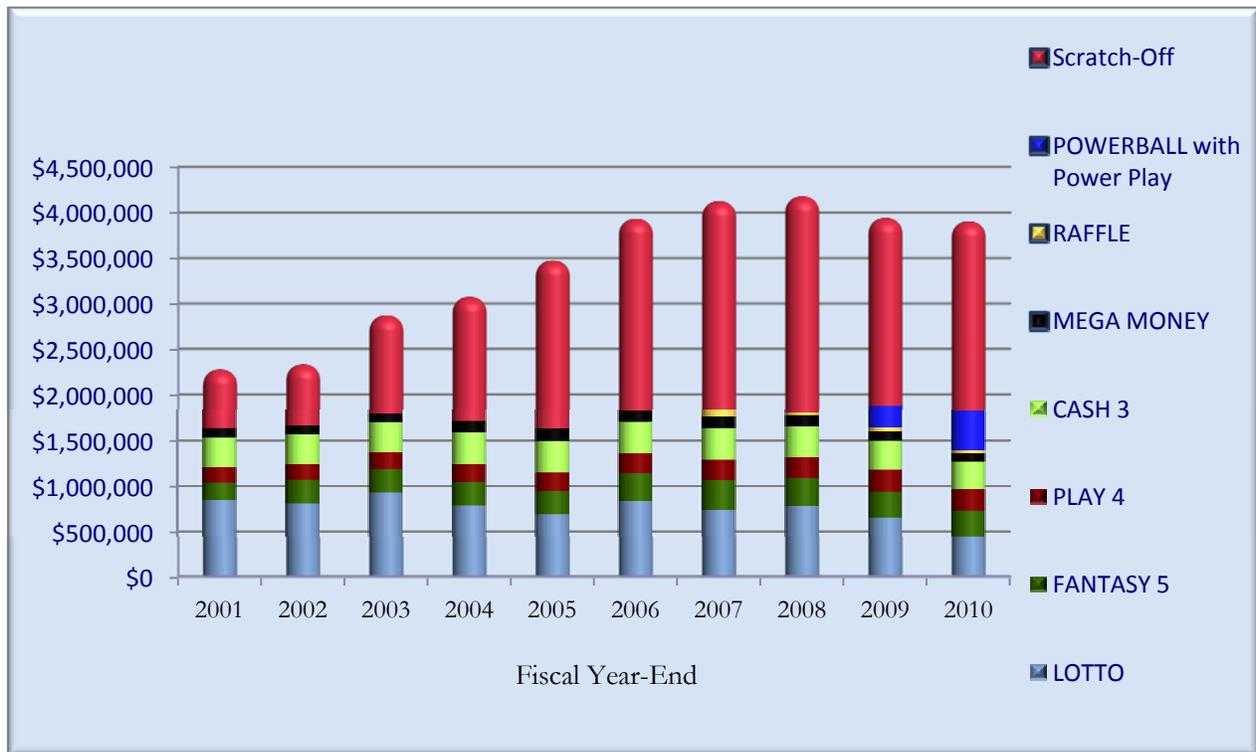


Sales by Product for Fiscal Year 2008-09



The following chart and table show sales by game for the last ten fiscal years:

**Department of the Lottery
Historical Lottery Sales by Game
(In Thousands)**



**Department of the Lottery
Historical Lottery Sales By Game
Last Ten Fiscal Years
(In Thousands)**

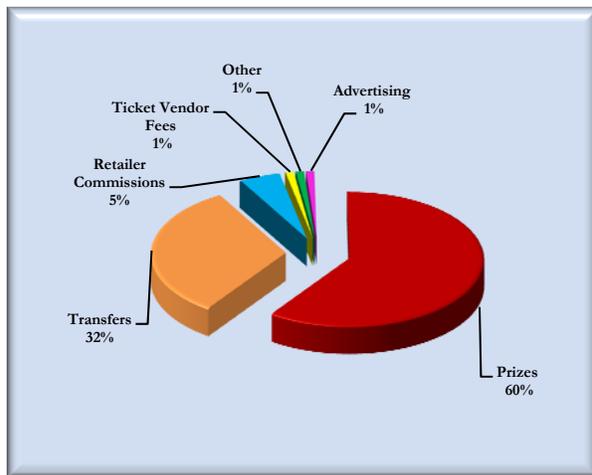
| Fiscal Year Ended June 30 | LOTTO™ | FANTASY 5™ | PLAY 4™ | CASH 3™ | MEGA MONEY™ | MILLIONAIRE RAFFLE™ | POWERBALL® with Power Play® | Scratch- Off | Combined Sales |
|---------------------------------|------------|------------|------------|------------|----------------|------------------------|-----------------------------------|-----------------|-------------------|
| 2001 | \$ 845,433 | \$ 191,614 | \$ 163,157 | \$ 326,471 | \$ 108,842 | | | \$ 639,209 | \$ 2,274,726 |
| 2002 | 806,023 | 262,923 | 170,708 | 329,830 | 98,315 | | | 662,566 | 2,330,365 |
| 2003 | 925,474 | 259,999 | 182,716 | 330,001 | 95,930 | | | 1,073,861 | 2,867,981 |
| 2004 | 785,415 | 259,728 | 192,580 | 349,227 | 125,944 | | | 1,358,068 | 3,070,962 |
| 2005 | 689,820 | 252,467 | 206,982 | 345,598 | 131,248 | | | 1,844,619 | 3,470,734 |
| 2006 | 835,028 | 306,679 | 215,529 | 343,174 | 128,502 | | | 2,100,118 | 3,929,030 |
| 2007 | 735,585 | 326,241 | 225,285 | 348,694 | 130,142 | \$ 72,549 | | 2,283,620 | 4,122,116 |
| 2008 | 778,954 | 309,445 | 227,940 | 336,096 | 122,742 | 30,818 | | 2,368,781 | 4,174,776 |
| 2009 | 650,603 | 287,285 | 238,957 | 320,157 | 102,190 | 41,314 | \$ 233,396 | 2,064,135 | 3,938,037 |
| 2010 | 445,881 | 281,963 | 235,027 | 304,039 | 92,060 | 29,334 | 434,062 | 2,078,133 | 3,900,499 |

Expenses

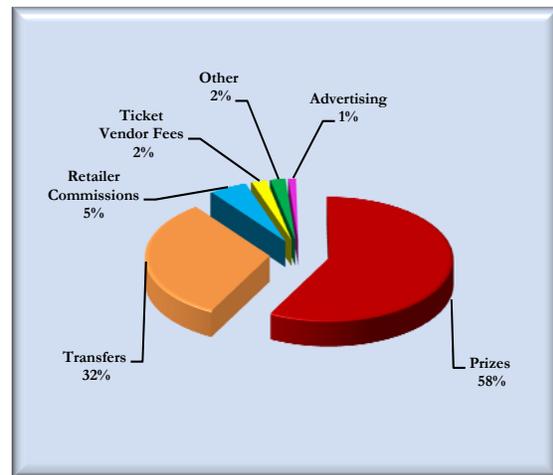
Section 24.121, Florida Statutes, stipulates that funds remaining in the Operating Trust Fund after the transfer to the EETF shall be used for the payment of administrative expenses of the Lottery. These expenses include On-line game expenses, Scratch-Off ticket expenses, advertising, and other expenses required for the day-to-day operations of the Lottery.

The following charts show the major components of Lottery operating expenses and transfers as a percentage of ticket sales for the 2010 and 2009 fiscal years:

**Operating Expenses and Transfers
Fiscal Year 2009-10**



**Operating Expenses and Transfers
Fiscal Year 2008-09**



Prizes, commissions, and vendor fees directly relate to sales and fluctuate accordingly. In fiscal year 2010, these expenses changed proportionally, yet as a percentage of total expenses they remained constant. The other expenses, which consist of advertising, salary and benefits, professional fees, rent, maintenance, and depreciation, remained relatively stable. Fiscal year 2010 and 2009 administrative expenses were \$71.5 million and \$71.2 million, respectively.

Transfers

The Lottery’s contribution to the EETF for the fiscal year ended June 30, 2010, \$1.25 billion, was slightly below the prior fiscal year contribution of \$1.29 billion, but for the eighth consecutive year the Lottery contributed over \$1 billion. Despite the decrease in sales the drop in the transfer was minimal, primarily because the Lottery liquidated previously required reserves for LOTTO PLUS and a portion of the reserves related to prizes that were unclaimed by winners. With the exception of the 2010 fiscal year, the Lottery has shown increases in transfers since fiscal year 2001. Although the transfer in the current year is minimally below the prior fiscal year’s, overall the Lottery’s transfer rates have increased slightly over the rate of inflation during the 23-year period.

The following chart shows the total transfers to the EETF for the past five fiscal years:



ECONOMIC FACTORS AND FUTURE IMPACTS

The main economic factors affecting lottery sales are population growth, personal income growth, tourism, and competition for discretionary consumer spending. The Lottery is challenged with Florida’s unemployment rate, which rose above 11% during the fiscal year 2010, declining population growth that is expected to remain relatively flat over

the next few years, and consumer confidence recovering at a slow rate. Ways to improve its generation of funds for the EETF and maintain the annual transfer to the EETF of over \$1 billion must be found. The Lottery's strategies revolve around enhancing On-line and Scratch-Off product sales and increasing retailer penetration in the State. The following are some of the functional strategies currently being explored by Lottery management:

- **Increase the focus of research and product development for the On-line and Scratch-Off product segments.** This functional strategy will be accomplished through product development, redesign of existing On-line games, advertised promotions, Scratch-Off games, etc.

Chapter 24.121, Florida Statutes, authorizes the Lottery to utilize variable prize payout for both On-line games and Scratch-Off games. The Lottery began utilizing higher prize payouts for On-line games in fiscal year 2005 and did not expect the same rate of return for the On-line games; however, the Lottery has experienced a positive return from applying the variable prize payout strategy. During fiscal year 2010, the Lottery utilized the higher payout authority for EZ Match promotions, LOTTO PLUS, and three raffle games.

- **Improve market penetration through expansion of Lottery retailer network and provision of alternative retail channels.** The Lottery has set internal goals for continuing to grow the number of retailers so that Florida's per capita level of retailers is comparable to other successful states. Efforts to continually increase the retailer base are on-going. The Department conducted two retailer recruitment seminars across the State, which resulted in multiple application submissions. In addition, the Lottery continued individual communication efforts with potential retailers. As of the fiscal year-end 2010, the retailer base is holding steady at just under 13,200 retailers. The Lottery also installed 1,000 ITVMs in existing retailer locations in October of 2009. The installations were proven to have a positive impact on ticket sales for the fiscal year 2010.

FINANCIAL CONTACT

The Lottery's financial statements and this Management's Discussion and Analysis are designed to give a general overview to the reader. If you have any questions regarding this report or require additional information, please contact the State of Florida, Department of the Lottery, Chief Financial Officer, 250 Marriott Drive, Capitol Complex, Tallahassee, Florida 32399.

BASIC FINANCIAL STATEMENTS

DEPARTMENT OF THE LOTTERY
STATEMENT OF NET ASSETS
As of June 30, 2010, and June 30, 2009
(In Thousands)

| Assets | <u>June 30, 2010</u> | <u>June 30, 2009</u> |
|--|----------------------|----------------------|
| Current Assets: | | |
| Cash and cash equivalents | \$156,313 | \$126,062 |
| Interest receivable | 468 | 549 |
| Accounts receivable, net | 16,473 | 43,185 |
| Prepaid expenses | 46 | 27 |
| Inventories | 1,021 | 843 |
| Security deposits | 2,444 | 2,729 |
| Total Current Assets | <u>176,765</u> | <u>173,395</u> |
| Noncurrent Assets: | | |
| Restricted Assets | | |
| Cash and cash equivalents | 99,419 | 50,590 |
| Securities lending income receivable | 292 | 631 |
| Deposit with MUSL | 9,336 | 3,073 |
| Pending investment sales | 2,816 | 0 |
| Investments, grand prize | 884,058 | 1,029,759 |
| Investments, security lending collateral | 749,137 | 842,681 |
| Total Restricted Assets | <u>1,745,058</u> | <u>1,926,734</u> |
| Capital assets, net | 1,421 | 1,235 |
| Total Noncurrent Assets | <u>1,746,479</u> | <u>1,927,969</u> |
| Total Assets | <u>1,923,244</u> | <u>2,101,364</u> |
| | | |
| Liabilities | | |
| Current Liabilities: | | |
| Accounts payable and accrued liabilities | 13,686 | 8,407 |
| Prizes payable | 94,809 | 77,745 |
| Due to Educational Enhancement Trust Fund | 59,308 | 83,765 |
| Deposits payable | 2,450 | 2,736 |
| Compensated absences payable | 873 | 889 |
| Total Current Liabilities | <u>171,126</u> | <u>173,542</u> |
| Current Liabilities Payable from Restricted Assets: | | |
| Securities lending fees payable | 143 | 749 |
| Obligations under securities lending | 845,692 | 887,749 |
| Grand prizes payable | 172,589 | 194,955 |
| Total Current Liabilities Payable from Restricted Assets | <u>1,018,424</u> | <u>1,083,453</u> |
| Noncurrent Liabilities: | | |
| Grand prizes payable from restricted assets | 595,792 | 718,790 |
| Compensated absences payable | 2,804 | 2,942 |
| Postemployment healthcare benefits payable | 990 | 458 |
| Total Noncurrent Liabilities | <u>599,586</u> | <u>722,190</u> |
| Total Liabilities | <u>1,789,136</u> | <u>1,979,185</u> |
| | | |
| Net Assets | | |
| Invested in capital assets | 1,421 | 1,235 |
| Restricted net assets for undistributed appreciation on restricted investments | 109,494 | 67,281 |
| Restricted net assets for Restricted Prize Pool | 0 | 32,661 |
| Restricted net assets for MUSL | 9,336 | 3,073 |
| Restricted net assets for future prizes or special prize promotions | 13,857 | 17,929 |
| Total Net Assets | <u>\$134,108</u> | <u>\$122,179</u> |

See accompanying notes to financial statements.

DEPARTMENT OF THE LOTTERY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
Years ended June 30, 2010, and June 30, 2009
(In Thousands)

| | <u>June 30, 2010</u> | <u>June 30, 2009</u> |
|--|----------------------|----------------------|
| Operating Revenues: | | |
| Ticket sales | \$3,900,499 | \$3,938,037 |
| Bad debt expense | (1,075) | (1,256) |
| On-line fees and miscellaneous | 7,373 | 7,198 |
| Retailer fees | 226 | 210 |
| Total Operating Revenues | <u>3,907,023</u> | <u>3,944,189</u> |
| Operating Expenses: | | |
| Prizes | 2,346,162 | 2,340,372 |
| Retailer commissions | 216,207 | 220,548 |
| Scratch-Off tickets | 30,896 | 31,893 |
| On-line games | 27,390 | 27,982 |
| Advertising | 34,197 | 34,353 |
| Personal services | 27,045 | 26,857 |
| Other contractual services | 7,474 | 7,082 |
| Materials and supplies | 2,309 | 2,247 |
| Depreciation | 494 | 684 |
| Total Operating Expenses | <u>2,692,174</u> | <u>2,692,018</u> |
| Operating Income | <u>1,214,849</u> | <u>1,252,171</u> |
| Nonoperating Revenues (Expenses): | | |
| Interest | 6,057 | 7,133 |
| Securities lending income | 2,909 | 18,183 |
| Securities lending fees | (1,520) | (8,980) |
| Investment management fees | (364) | (327) |
| Net appreciation (depreciation) in fair value of investments | 90,875 | 46,832 |
| Property disposition (loss) | (4) | (31) |
| Amortization of grand prizes payable | (54,079) | (64,757) |
| Total Nonoperating Revenues (Expenses), Net | <u>43,874</u> | <u>(1,947)</u> |
| Income Before Operating Transfers | <u>1,258,723</u> | <u>1,250,224</u> |
| Transfers to Educational Enhancement Trust Fund: | | |
| Transfers from revenue and reserves | (1,203,024) | (1,241,015) |
| Transfers from unclaimed prizes | (43,770) | (46,840) |
| Total Transfers to Educational Enhancement Trust Fund | <u>(1,246,794)</u> | <u>(1,287,855)</u> |
| Change in Net Assets | 11,929 | (37,631) |
| Net Assets, Beginning of Year | <u>122,179</u> | <u>159,810</u> |
| Net Assets, End of Year | <u>\$134,108</u> | <u>\$122,179</u> |

See accompanying notes to financial statements.

**DEPARTMENT OF THE LOTTERY
STATEMENT OF CASH FLOWS
Years ended June 30, 2010, and June 30, 2009
(In Thousands)**

| | June 30, 2010 | June 30, 2009 |
|---|---------------------|---------------------|
| Operating Activities: | | |
| Ticket sales | \$ 3,926,136 | \$ 3,933,668 |
| Prizes paid to winners | (2,335,361) | (2,326,709) |
| Commissions paid and payments to retailers | (216,207) | (220,548) |
| Paid to vendors for goods and services | (97,306) | (107,442) |
| Paid to employees | (26,545) | (26,090) |
| Other operating revenue | 7,599 | 7,408 |
| Net Cash Provided by Operating Activities | 1,258,316 | 1,260,287 |
| Noncapital Financing Activities: | | |
| Payments to Educational Enhancement Trust Fund | (1,271,251) | (1,316,969) |
| Net Cash Used in Noncapital Financing Activities | (1,271,251) | (1,316,969) |
| Capital and Related Financing Activities: | | |
| Purchase of capital assets | (684) | (671) |
| Net Cash Used in Capital and Related Financing Activities | (684) | (671) |
| Investing Activities: | | |
| Cash received from maturity of grand prize investments | 201,688 | 219,980 |
| Cash paid to grand prizewinners upon maturity of grand prize investments | (201,688) | (219,980) |
| Security lending | 85,466 | 0 |
| Investment income, net of fees | 7,233 | 16,626 |
| Net Cash Provided by Investing Activities | 92,699 | 16,626 |
| Net Increase (Decrease) in Cash and Cash Equivalents | 79,080 | (40,727) |
| Cash and Cash Equivalents, Beginning of Year | 176,652 | 217,379 |
| Cash and Cash Equivalents, End of Year | \$ 255,732 | \$ 176,652 |
| Reconciliation of Income from Operations to Net Cash Provided by Operating Activities: | | |
| Income from operations | \$ 1,214,849 | \$ 1,252,171 |
| Adjustments to reconcile income from operations to net cash provided by operating activities: | | |
| Depreciation | 494 | 684 |
| Changes in assets and liabilities | | |
| (Increase) decrease in: | | |
| Accounts receivable | 20,283 | (5,180) |
| Inventories | (178) | 1 |
| Prepaid expenses | (19) | (27) |
| Increase (decrease) in: | | |
| Allowance for uncollectible accounts | 166 | (1,006) |
| Accounts payable and accrued liabilities | 5,278 | (3,379) |
| Prizes payable | 17,064 | 16,735 |
| Compensated absences payable | (153) | 82 |
| Postemployment healthcare benefits payable | 532 | 206 |
| Net Cash Provided by Operating Activities | \$ 1,258,316 | \$ 1,260,287 |
| Noncash Investing, Capital and Financing Activities: | | |
| Increase/(decrease) in fair value of investments | \$ (31,456) | \$ (91,099) |

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

DEPARTMENT OF THE LOTTERY
Years ended June 30, 2010, and June 30, 2009**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES****a. Reporting Entity**

The State of Florida, Department of the Lottery (the Lottery) was established as a State agency with the enactment of the Florida Public Education Lottery Act (the Act) in 1987. The purpose of the Act is “to implement Section 15, Article X of the State Constitution in a manner that enables the people of the State to benefit from significant additional moneys for education and also enables the people of the State to play the best lottery games available.”

In evaluating the Lottery as a reporting entity, management has addressed all potential component units for which the Lottery may be financially accountable and, as such, be includable in the Lottery’s financial statements. The Lottery is financially accountable if it appoints a voting majority of the organization’s governing board and (1) it is able to impose its will on the organization or (2) there is a potential for the organization to provide specific financial benefit to or impose specific financial burden on the Lottery. Additionally, the primary government is required to consider other organizations for which the nature and significance of their relationship with the primary government is such that exclusion would cause the reporting entity’s financial statements to be misleading or incomplete. Management’s analysis has disclosed no component units that should be included in the Lottery’s financial statements.

b. Basis of Presentation

The Lottery is accounted for as a proprietary type enterprise fund. Enterprise funds are used to account for activities that are financed and operated in a manner similar to private business enterprises: (1) where the costs of providing goods and services to the general public on a continuing basis are to be financed through user charges; or (2) where the periodic determination of net income is considered appropriate. The Lottery is reported as an enterprise fund within the State of Florida’s Comprehensive Annual Financial Report.

c. Basis of Accounting

Basis of accounting refers to the timing of recognition of revenue and expenses in the accounts and reporting in the financial statements. The financial statements are prepared on the accrual basis of accounting in accordance with generally accepted accounting principles. Under this method, revenues are recognized when they are earned and expenses are recognized when they are incurred.

The measurement focus of proprietary fund types is on a flow of economic resources method, which emphasizes the determination of net income, financial position, and cash flows. All fund assets and liabilities, current and noncurrent, are accounted for on the Statement of Net Assets. Under Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, proprietary funds have the option to elect to apply all pronouncements of the Financial Accounting Standards Board (FASB) issued after November 30, 1989. The Lottery has elected not to apply FASB pronouncements issued after November 30, 1989, unless so directed by GASB.

The Lottery's operating revenues and expenses generally result from the sale and marketing of Lottery tickets and the payment of related prizes. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

d. Cash and Cash Equivalents

The Lottery considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents. This includes cash in banks, repurchase agreements with financial institutions, petty cash, balances held by the State Board of Administration (SBA), and pooled investments in the State Treasury.

e. Investments

Florida Statutes authorize the Lottery to invest in certain instruments. The Lottery reports investments at fair value. Investments that are not publicly quoted are priced by a third party through a discounted cash flow method. Details of investments are included in Note 2.

f. Allowance for Doubtful Accounts

The allowance for doubtful accounts is based on an analysis of collectibility of accounts receivable, which considers the age of the accounts.

g. Inventories

Supply inventory and promotional items are valued at cost, using the first-in, first-out method. Supply inventory is comprised of game merchandise and prepaid postage.

h. Prepaid Expenses

Prepaid expenses represent warranty agreements paid for during the current year but which will not be consumed or used up until a future period.

i. Capital Assets

Capital assets are stated at cost less accumulated depreciation. As required by Chapter 273, Florida Statutes, a capitalization threshold of \$1,000 and useful life extending beyond one year is employed for tangible personal property. The Lottery's capitalization threshold for intangible assets is \$5,000. Depreciation on all capital assets is computed using the straight-line method over the following estimated useful lives:

| | |
|-------------------------------|---------------|
| Data processing equipment | 3 to 5 years |
| Office furniture and fixtures | 3 to 15 years |
| Vehicles and other equipment | 3 to 20 years |
| Software | 3 to 15 years |

When capital assets are retired or otherwise disposed of, the costs and related accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected in the Statement of Revenues, Expenses, and Changes in Net Assets, in the period of disposal. See Note 5 for more detailed information on Capital Assets.

j. Net Assets

Net Assets includes categories for net investments in capital assets, restricted net assets for undistributed appreciation on restricted investments, restricted net assets for future prizes or special prize promotions, restricted net assets for the Restricted Prize Pool, and restricted net assets for MUSL. See Note 6 for more information on MUSL.

The net investments in capital assets category represents the investment in capital assets, recorded at cost less accumulated depreciation.

The restricted net assets for undistributed appreciation on restricted investments category represents the undistributed appreciation for all restricted investment accounts.

The restricted net assets for future prizes or special prize promotions category represents the portion of unclaimed prize obligations legally reverted back to the Lottery for the payment of future prize pools or special prize promotions in accordance with Section 24.115(2), Florida Statutes.

The restricted net assets for Restricted Prize Pool category in the prior year represented the prize expense reserved to support payments to winners of the Florida Lotto Plus jackpots in accordance with Rule 53ER08-88, Florida Administrative Code, which was replaced by Rule 53ER09-54 Florida Administrative Code. The requirement for this restriction ended with the elimination of LOTTO PLUS in October of 2009.

The restricted net assets for MUSL category represents the amount placed into reserve for the Florida Lottery by the MUSL Powerball Product Group in accordance with Rule 53ER09-52, Florida Administrative Code.

k. Revenue Recognition

Lottery games are sold to the public by contracted retailers. Revenue is recognized when On-line tickets are sold to players and when books of Scratch-Off tickets are settled. Certain games include tickets that entitle the holder to exchange one ticket for another (free tickets). Such tickets are deemed to be replacements and, therefore, are not included in ticket sales.

l. Commissions

Retailers receive a commission of five percent on ticket sales. The commission on ticket sales for Scratch-Off games is based upon total tickets distributed to the players (including free tickets) which, when compared to revenue, causes the percentage to be slightly higher than five percent. Additionally, retailers are paid commissions through a one percent cashing bonus on redemption of tickets (including free tickets).

m. Prizes

In accordance with the Act, variable percentages of the gross revenue from the sale of On-line and Scratch-Off lottery tickets shall be returned to the public in the form of prizes paid by the Lottery or retailers as authorized. Prior to July 1, 2006, the Act authorized, as nearly as practicable, at least fifty percent of ticket sales must be returned to the public in the form of prizes.

Prize expense for On-line games is recorded based on prizes won by the players, as revenue is recognized. Any prize that remains unclaimed at the end of a 180-day period following a draw is considered unclaimed.

Prize expense for Scratch-Off games is recorded based on the predetermined prize structure for each game, as revenue is recognized. Any prize that remains unclaimed 60 days after a Scratch-Off game is closed is considered unclaimed.

Beginning July 1, 2005, 80 percent of all unclaimed prize money is deposited in the Educational Enhancement Trust Fund (EETF). The remaining 20 percent of unclaimed prize money is added to the pool from which future prizes are to be awarded or used for special prize promotions and is reported as restricted net assets for future prizes or special prize promotions

All prizes are recorded at the actual amount except for the annuity-funded prizes, which are paid out on a deferred basis. The actual prize expense for these types of prizes is based on the present value of an annuity using the interest yield on the investments, which were acquired to fund the annuity.

n. Compensated Absences

Employees earn the right to be compensated during absences for vacation, illness, and unused special compensatory leave earned for hours worked on legal holidays. Compensated absences for annual leave are recorded as a liability when the benefits are earned. Compensated absences for sick leave are calculated based on the vesting method. Within the limits established by law or rule, unused leave benefits are paid to employees upon separation from State service. The cost of vacation and calculated sick leave benefits is accrued in the period in which earned. The compensated absences amounts are based on current year-end salary rates and include employer social security and pension contributions at current rates.

o. Self-Insurance

The Lottery participates in the various self-insurance programs established by the State of Florida for property and casualty losses and employee health insurance. Coverage includes property, general liability, automobile liability, workers' compensation, court-awarded attorney fees, and Federal civil rights actions. The property insurance program self-insures the first \$2 million per occurrence for all perils except named windstorm and flood. The property insurance program self-insures the first \$2 million per occurrence with an annual aggregate of \$40 million for named windstorm and flood. Commercial excess insurance is purchased for losses over the self-insured retention up to \$58.75 million per occurrence for named windstorm, \$58.75 million per occurrence for flood losses, and \$200 million per occurrence for fire, lightning, and sinkhole losses. Workers' compensation is provided to comply with the applicable law. The employee health and dental insurance program provides for payment of medical claims of employees and covered dependents.

p. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, restricted net assets, revenues, and expenses, and disclosures of contingent assets and liabilities. Actual results could differ from those estimates.

q. Bad Debt Expense

Bad debt expense is reported as a reduction in gross revenue. Bad debt expense results when a Lottery retailer's uncollected revenue is past due. The amount of expense is estimated based on an accounts receivable age analysis. The bad debt expense for the fiscal years ended June 30, 2010, and June 30, 2009, was \$1,075,000 and \$1,256,000, respectively.

r. New Accounting Standards

In the 2009-2010 fiscal year, the Lottery began capitalizing intangible assets in accordance with GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. This statement requires that intangible assets, except those specifically excluded, be classified as capital assets and provides authoritative guidance on the nature of intangible assets. The Lottery did not restate prior periods presented since the impact was not material to the financial statements. Refer to Note 5 for details on the Lottery's capital assets.

2. CASH AND INVESTMENTS

a. Cash and Cash Equivalents

Cash is held in demand deposits at various financial institutions. These deposits, with a book value of approximately \$649,000 at June 30, 2010, and \$893,000 at June 30, 2009, were insured by either the State's collateral for public deposits in accordance with Section 280.04, Florida Statutes, or Federal depository insurance. Cash held in time deposits for the security lending program with a book value of \$85,466,000 were exposed to custodial credit risk as these balances were uncollateralized and uninsured.

Chapter 280, Florida Statutes, generally requires public funds to be deposited in a Qualified Public Depository, which is a bank or savings association that is designated by the State of Florida Chief Financial Officer (State CFO) as authorized to receive deposits in the State and that meets the collateral requirements. The State CFO determines the collateral requirements and collateral pledging level for each Qualified Public Depository following guidelines outlined in Section 280.04, Florida Statutes, and Chapter 69C-2, Florida Administrative Code. Collateral pledging levels include 25, 50, 125, and 200 percent of a Qualified Public Depository's average daily deposit balance or, if needed, an amount as prescribed by the State CFO. Collateral may be held by another custodian with approval of the State CFO if conditions are met that protect the State's interest. Eligible collateral includes federal, federally-guaranteed, state and local government obligations, corporate bonds, and other securities designated allowable under conditions set by the State CFO.

Florida Statutes provide that if a loss to public depositors is not covered by deposit insurance and the proceeds from the sale of securities pledged by the defaulting depository, the difference will be provided by an assessment levied against other Qualified Public Depositories of the same type as the depository in default.

Due to the investing policy of the Lottery, book overdrafts were approximately \$2,269,000 at June 30, 2010, and \$2,117,000 at June 30, 2009, representing outstanding prize payment checks and retailer payment checks. These outstanding checks are included as a component of prizes payable and accounts payable. The Lottery has an agreement with a financial institution to honor prize payments and retailer payments, as they are presented to the bank, up to \$75 million.

Surplus cash is maintained in the State Treasury's general pool of investments. The State CFO pools funds from all departments. Included in the pool are primarily time deposits, U.S. Government securities, federal agency securities, bankers' acceptances, commercial paper, corporate bonds and notes, repurchase agreements and reverse repurchase agreements. The Lottery's share of this investment pool was approximately \$169,617,000 and \$175,759,000 at June 30, 2010, and 2009, respectively. No allocation will be made as to the Lottery's share of the types of investments or their risk categories. The Lottery's share of the assets and liabilities arising from the securities lending agreements administered by the State Treasury will likewise not be carried on the Statement of Net Assets since the State Treasury operates on a pooled basis and to do so may give the misleading impression that the Lottery itself has

entered into such agreements. For further information, refer to the State of Florida's Comprehensive Annual Financial Report or publications of the State of Florida Department of Financial Services, Office of the Chief Financial Officer.

b. Investments, Grand Prize

The grand prize investments primarily consist of U.S. Government obligations held on the Lottery's behalf by the SBA. Grand prize investments and related grand prizes payable are not presented in current assets or liabilities. They are not part of current operations but instead are restricted assets and liabilities that are held by the Lottery for grand prize winnings to be paid on a deferred basis if the cash payment option is not selected.

Grand prize investments are shown at fair value, and the related grand prizes payable are adjusted to the net present value using the yield on the investments. The difference between the fair value of the investments and the net present value of the grand prizes payable is reflected as a restriction for undistributed appreciation on investments in net assets. This represents the unrealized gains on the investments. Because these investments are held restrictively for grand prizewinners, this balance is not available for transfer to the EETF.

Interest accreted on grand prize investments during the year is reflected as an increase in the carrying value of grand prizes payable on the Statement of Net Assets, and as a nonoperating expense on the Statement of Revenues, Expenses, and Changes in Net Assets. Net appreciation(depreciation) in fair value of investments is reflected as a nonoperating revenue(expense) on the Statement of Revenues, Expenses, and Changes in Net Assets, and takes into account all changes in fair value that occurred during the year, including purchases, maturities, and sales.

c. Investments, Security Lending Collateral

These investments consist of the fair value of investments made with cash collateral held by the SBA on the Lottery's behalf as part of a securities lending program.

The SBA, authorized by Section 215.47, Florida Statutes, participates in a securities lending program involving grand prize investments. The Lottery, through the SBA, loans various securities to borrowers for collateral with a simultaneous agreement to return collateral for the same securities in the future. Collateral received from borrowers may be cash or U.S. Government securities. The SBA is contractually limited from pledging or selling collateral except in the event of borrower default. The contract with the lending agent requires it to indemnify the SBA if the borrowers fail to return the underlying securities or fail to pay income distributions on them. No significant violations of legal or contractual provisions occurred, and no losses resulted from borrower or lending agent defaults.

The Bank of New York Mellon (Mellon) is the agent for lending U.S. Treasury securities to various authorized brokers for cash or U.S. Government securities. Initially, collateral received shall be in the form of cash at 100 percent, or other securities valued at 102 percent, of the fair value of the securities loaned as required by the lending agreement. Borrowers must be approved for lending by Mellon's credit department. Mellon monitors the fair value of collateral provided and the securities on loan on a daily basis. Additional collateral is required if the fair value of the collateral for any loan is less than 100 percent of the fair value of the securities provided for such loan. The SBA had no credit risk exposure to borrowers at year-end.

The SBA had received \$845,692,000 of cash collateral for the lending program as of June 30, 2010, and \$887,749,000 as of June 30, 2009. At June 30, 2010, and June 30, 2009, the collateral that was held for the securities lending transactions exceeded the fair value of the securities underlying the agreements (including accrued interest). The cash was invested in securities authorized by the lending agreement.

Authorized securities include primarily certificates of deposit, corporate and medium term notes, asset-backed securities, and repurchase agreements. The invested cash collateral generally has a shorter maturity than the securities on loan.

A risk factor associated with this lending agreement is the potential for declines in the value of the investment holdings purchased with the cash collateral. If these investments must be liquidated, any shortfall between the value of the investments and the securities lending obligation becomes the responsibility of the Lottery. As of June 30, 2009, the total unrealized shortfall was \$45 million. For the fiscal year 2009-10, a net realized loss of \$5.4 million is reported with unrealized gains and losses in the Statement of Revenues, Expenses, and Changes in Net Assets as Net appreciation (depreciation) in fair value of investments. This loss is due to a decline in value of various mortgage-backed investments held by the SBA on behalf of the Lottery. The recovery in value of these investments was not considered probable. Therefore, the underlying securities were sold and the resulting loss realized. As of June 30, 2010, the total unrealized shortfall was \$8 million.

Other risk factors associated with security lending include counterparty default and failure of the custodial bank to indemnify the Lottery.

Securities lending income and expenses for the years ended June 30, 2010, and 2009, consisted of (in thousands):

| | <u>2010</u> | <u>2009</u> |
|---------------------------------------|-----------------|-----------------|
| Securities lending income | \$ 2,909 | \$ 18,183 |
| Less broker rebates | (1,483) | (7,835) |
| Less bank fees | (37) | (1,145) |
| Net securities lending revenue | <u>\$ 1,389</u> | <u>\$ 9,203</u> |

d. Investment Credit Risk

Lottery grand prizewinner investments have been limited to U.S. Government guaranteed securities.

The State Treasury Investment Pool's current rating by Standard and Poor's is Af.

Listed below are the Standard and Poor's credit ratings for the lending program's invested cash collateral (in thousands):

As of June 30, 2010

| Investment Type | Standard and Poor's Credit Rating | | | | | | | Totals |
|--|-----------------------------------|------------------|-----------------|-----------------|-----------------|-------------------|-------------------|-------------------|
| | AAA | AA | A | BBB | B | A-1 | NR | |
| Certificates of Deposit | \$ - | \$ 17,883 | \$ - | \$ - | \$ - | \$ - | \$ 180,065 | \$ 197,948 |
| Commercial Paper | - | - | - | - | - | 161,357 | - | 161,357 |
| Domestic Corporate Bonds & Notes | - | 22,867 | 7,705 | - | - | - | - | 30,572 |
| Domestic Non-government Asset-backed Securities | 218,071 | - | - | 3,527 | 1,014 | - | 6,701 | 229,313 |
| Domestic Non-government Backed CMO's | 4,392 | - | - | - | - | - | - | 4,392 |
| International Corporate Bonds & Notes | - | 11,911 | - | - | - | - | 10,970 | 22,881 |
| International Non-government Asset-backed Securities | 13,405 | - | - | - | - | - | - | 13,405 |
| International Non-government Backed CMO's | 37,930 | - | - | - | - | - | - | 37,930 |
| Repurchase Agreements | - | - | - | - | - | - | 51,339 | 51,339 |
| Grand Total | \$ 273,798 | \$ 52,661 | \$ 7,705 | \$ 3,527 | \$ 1,014 | \$ 161,357 | \$ 249,075 | \$ 749,137 |

As of June 30, 2009

| Investment Type | Standard and Poor's Credit Rating | | | | | | | Totals |
|--|-----------------------------------|-----------------|-------------------|------------------|-----------------|-----------------|-------------------|-------------------|
| | AAA | AA | A | BBB | BB | CCC | NR | |
| Certificates of Deposit | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Domestic Corporate Bonds & Notes | - | 9,953 | 195,387 | 12,416 | - | - | 4,921 | 222,677 |
| Domestic Non-government Asset-backed Securities | 317,625 | - | - | 4,196 | 1,494 | 2,114 | 14,357 | 339,786 |
| Domestic Non-government Backed CMO's | 3,913 | - | - | - | - | - | - | 3,913 |
| International Corporate Bonds & Notes | 19,942 | - | - | - | - | - | - | 19,942 |
| International Non-government Asset-backed Securities | 12,150 | - | - | - | - | - | - | 12,150 |
| International Non-government Backed CMO's | 72,225 | - | - | - | - | - | - | 72,225 |
| Repurchase Agreements | - | - | - | - | - | - | 171,988 | 171,988 |
| Grand Total | \$ 425,855 | \$ 9,953 | \$ 195,387 | \$ 16,612 | \$ 1,494 | \$ 2,114 | \$ 191,266 | \$ 842,681 |

e. Investment Interest Rate Risk

The investment policy objective is to match maturities of investments with the maturities of the lottery winner annuities. Therefore, investments are held to maturity after they are purchased thereby eliminating interest rate risk. Listed below are the Lottery's investments in U.S. Treasury Strips (in thousands):

| As of June 30, 2010 | | As of June 30, 2009 | |
|------------------------|-------------------|------------------------|---------------------|
| Time to Maturity | Fair Value | Time to Maturity | Fair Value |
| < 1 year | \$ 178,478 | < 1 year | \$ 201,477 |
| > 1 year to 3 years | 283,945 | > 1 year to 3 years | 325,664 |
| > 3 years to 5 years | 181,658 | > 3 years to 5 years | 221,593 |
| > 5 years to 10 years | 132,986 | > 5 years to 10 years | 178,920 |
| > 10 years to 15 years | 52,935 | > 10 years to 15 years | 47,805 |
| > 15 years to 20 years | 47,871 | > 15 years to 20 years | 37,026 |
| > 20 years to 25 years | 4,505 | > 20 years to 25 years | 15,410 |
| > 25 years | 1,680 | > 25 years | 1,864 |
| Total | \$ 884,058 | Total | \$ 1,029,759 |

The Lottery contracts with the SBA to execute the securities lending program. The securities lending authorization agreement between Mellon and the SBA requires that the maximum weighted average portfolio maturity not exceed 90 days. The lending program invests a significant amount of its assets in floating rate securities and limits the maximum reset period for interest rate changes to six months. Next reset dates are used in the calculation of weighted average maturity. Listed below are the weighted average maturities for the lending program's invested cash collateral:

| Investment Type | June 30, 2010 | | June 30, 2009 | |
|--|---------------------------|---|---------------------------|---|
| | Fair Value (Thousands) | Weighted Average Maturity (Days) | Fair Value (Thousands) | Weighted Average Maturity (Days) |
| Certificates of Deposit | \$ 197,948 | 33 | \$ - | - |
| Commercial Paper | 161,357 | 31 | - | - |
| Domestic Corporate Bonds & Notes | 30,572 | 48 | 222,677 | 42 |
| Domestic Non-government Asset-backed Securities | 229,313 | 16 | 339,786 | 19 |
| Domestic Non-government Backed CMO's | 4,392 | 6 | 3,913 | 7 |
| International Corporate Bonds & Notes | 22,881 | 56 | 19,942 | 15 |
| International Non-government Asset-backed Securities | 13,405 | 77 | 12,150 | 77 |
| International Non-government Backed CMO's | 37,930 | 28 | 72,225 | 32 |
| Repurchase Agreements | 51,339 | 1 | 171,988 | 1 |
| Total Fair Value | \$ 749,137 | | \$ 842,681 | |
| Portfolio weighted average maturity | | 27 | | 23 |

The effective duration of the State Treasury Investment Pool at June 30, 2010, and June 30, 2009, was approximately 1.81 years and 1.84 years, respectively.

f. Investment Concentration of Credit Risk

Since all long-term investments (other than in the securities lending program) are in U.S. Government-guaranteed securities, the Lottery has not adopted a policy regarding concentration of credit risk. The securities lending program has established investment concentration of credit risk policies that limit the aggregate exposure to any one issuer or guarantor that is not the U.S. Government or guaranteed by the U.S. Government to 10 percent of the book value of the lending program's invested cash collateral. No invested cash collateral exceeded the 10 percent limitation. However, the security lending program had investments in GE Floorplan (5.73 percent), Discover Card (5.14 percent), and Chase Issuance (5.09 percent) that exceeded 5 percent of invested security lending collateral.

g. Investment Custodial Credit Risk

Custodial credit risk is defined as the risk that an entity may not recover securities held by another party. The Lottery does not have a formal policy regarding custodial credit risk. The custodian for the SBA-administered lending program is also the counterparty to the investment transactions. Therefore, the amount of investments subject to investment custodial credit risk at June 30, 2010, and June 30, 2009, was \$749,137,000 and \$842,681,000, respectively.

At June 30, 2010, and June 30, 2009, all non-lending investments held were either insured or registered and held by the Lottery or its agents in the Lottery's name and thus were not subject to custodial credit risk.

h. Foreign Currency Risk

The Lottery had no exposure to foreign currency risk as of June 30, 2010, and June 30, 2009.

i. Investment Summary

The following schedule summarizes all investments and investments loaned under securities lending agreements at June 30 (in thousands):

| Investment Type | June 30, 2010 Carrying Value | June 30, 2009 Carrying Value |
|---|---|---|
| Commercial Paper | \$ 161,357 | \$ - |
| Certificates of Deposit | 197,948 | - |
| Repurchase Agreements | 51,339 | 171,988 |
| U.S. Government Obligations & Federally Guaranteed Obligations | 55,507 | 152,569 |
| Domestic Corporate Bonds & Notes | 30,572 | 222,677 |
| Domestic Non-government Asset-backed Securities | 229,313 | 339,786 |
| International Corporate Bonds & Notes | 22,881 | 19,942 |
| International Non-government Asset-backed Securities | 13,405 | 12,150 |
| Domestic Non-government Backed CMO's | 4,392 | 3,913 |
| International Non-government Backed CMO's | 37,930 | 72,225 |
| Investments Held by Others Under Securities Lending Agreements - U.S. Obligations | 828,551 | 877,190 |
| Pooled Investments with State Treasury | 169,616 | 175,759 |
| Total Investments | \$ 1,802,811 | \$ 2,048,199 |

The following schedules reconcile cash and investments to the Statement of Net Assets at June 30 (in thousands):

| | June 30, 2010 | | | |
|--|----------------------|---|---------------------------------------|---------------------|
| | Investments | Cash at Financial Institutions | Cash at State Treasury | Total |
| Cash and cash equivalents | \$ 155,758 | \$ 310 | \$ 245 | \$ 156,313 |
| Restricted cash and cash equivalents | 13,858 | 85,561 | - | 99,419 |
| Investments, grand prize | 884,058 | - | - | 884,058 |
| Investments, security lending collateral | 749,137 | - | - | 749,137 |
| Total | \$ 1,802,811 | \$ 85,871 | \$ 245 | \$ 1,888,927 |

| | June 30, 2009 | | | |
|--|----------------------|---|---------------------------------------|---------------------|
| | Investments | Cash at Financial Institutions | Cash at State Treasury | Total |
| Cash and cash equivalents | \$ 125,169 | \$ 807 | \$ 86 | \$ 126,062 |
| Restricted cash and cash equivalents | 50,590 | - | - | 50,590 |
| Investments, grand prize | 1,029,759 | - | - | 1,029,759 |
| Investments, security lending collateral | 842,681 | - | - | 842,681 |
| Total | \$ 2,048,199 | \$ 807 | \$ 86 | \$ 2,049,092 |

3. ACCOUNTS RECEIVABLE

Accounts receivable as of June 30 consisted of (in thousands):

| | <u>2010</u> | <u>2009</u> |
|--------------------------------------|-------------------------|-------------------------|
| Ticket sales receivable | \$ 18,080 | \$ 44,533 |
| Other receivables | 25 | 118 |
| Total receivables | 18,105 | 44,651 |
| Less allowance for doubtful accounts | <u>(1,632)</u> | <u>(1,466)</u> |
| Accounts receivable, net | <u><u>\$ 16,473</u></u> | <u><u>\$ 43,185</u></u> |

4. SECURITY DEPOSITS AND DEPOSITS PAYABLE

The Lottery receives certificates of deposit and cashier’s checks from certain vendors and retailers in order to secure contract performance. Certificates of deposit are held in trust by the State with any interest earnings being credited to the vendor or retailer. Cashier’s checks are held as cash by the Lottery. These deposits are established to reduce the potential financial risk to the Lottery in the event of a breach of contract. The certificates appear on the Statement of Net Assets, in assets as security deposits, and in liabilities, as deposits payable. The checks appear on the Statement of Net Assets, in assets as cash, and in liabilities, as deposits payable.

5. CAPITAL ASSETS

Capital assets at June 30 consisted of (in thousands):

| | <u>Balance 30-Jun-08</u> | <u>2008-09</u> | | <u>Balance 30-Jun-09</u> | <u>2009-10</u> | | <u>Balance 30-Jun-10</u> |
|----------------------------------|------------------------------|--------------------|-----------------------|------------------------------|----------------------|----------------------|------------------------------|
| | | <u>Increase</u> | <u>Decrease</u> | | <u>Increase</u> | <u>Decrease</u> | |
| Data processing equipment | \$ 9,236 | \$ 317 | \$ (4,162) | \$ 5,391 | \$ 33 | \$ (1,466) | \$ 3,958 |
| Office equipment and fixtures | 5,968 | - | - | 5,968 | - | (117) | 5,851 |
| Vehicles and other equipment | 3,056 | 367 | (308) | 3,115 | - | (81) | 3,034 |
| Software | - | - | - | - | 651 | - | 651 |
| | <u>18,260</u> | <u>684</u> | <u>(4,470)</u> | <u>14,474</u> | <u>684</u> | <u>(1,664)</u> | <u>13,494</u> |
| Less accumulated depreciation | <u>16,981</u> | <u>684</u> | <u>(4,426)</u> | <u>13,239</u> | <u>494</u> | <u>(1,660)</u> | <u>12,073</u> |
| Total capital assets, net | <u><u>\$ 1,279</u></u> | <u><u>\$ -</u></u> | <u><u>\$ (44)</u></u> | <u><u>\$ 1,235</u></u> | <u><u>\$ 190</u></u> | <u><u>\$ (4)</u></u> | <u><u>\$ 1,421</u></u> |

6. MULTI-STATE LOTTERY ASSOCIATION

MUSL is an unincorporated government-benefit voluntary association created for the purpose of administering joint lottery games. MUSL included 31 state lottery entities, the District of Columbia, and the Virgin Islands during fiscal year 2009-10. This association offers the POWERBALL with Power Play On-line game and several other On-line games in participating states. The chief executive officer of each member lottery serves on the MUSL board of directors.

As a member of MUSL, the Lottery is required to contribute to various prize reserve funds maintained by MUSL. The prize reserve funds serve as a contingency reserve to protect MUSL from unforeseen prize payments. MUSL periodically reallocates the prize reserve funds among the states based on relative

POWERBALL with Power Play sales levels. All remaining funds remitted, and the related interest earnings (net of administrative costs), will be returned to the Lottery upon leaving MUSL, less any portion of unanticipated prize claims that may have been paid from the fund.

As of June 30, 2010, and June 30, 2009, the Lottery had deposits with MUSL of \$9,336,505, and \$3,073,441, respectively, representing the Lottery's deposits of reserve funds.

A copy of the MUSL financial statements may be obtained by submitting a written request to MUSL, 4400 N.W. Urbandale Drive, Urbandale, Iowa 50322.

7. LONG-TERM LIABILITIES

a. Grand Prizes Payable

Grand prizes payable at June 30 consisted of (in thousands):

| | <u>2010</u> | <u>2009</u> |
|--|--------------------------|--------------------------|
| LOTTO grand prizes (face value) | \$ 962,505 | \$ 1,159,485 |
| Mega Money grand prizes (face value) | 7,754 | 8,081 |
| Win for Life grand prizes (face value) | 12,658 | 13,022 |
| Flamingo Fortune Game Show grand prizes (face value) | 800 | 900 |
| Monthly Grand game prizes (face value) | - | 12 |
| Win a Million grand prizes (face value) | 400 | 450 |
| Yearly Bonus grand prizes (face value) | 150 | 200 |
| Lucky for Life grand prizes (face value) | 12,950 | 11,900 |
| Set for Life grand prize (face value) | 2,460 | 2,640 |
| Cash Spectacular grand prize (face value) | 650 | 700 |
| Cash for Life | 230 | 240 |
| Loaded for Life | 3,050 | 3,150 |
| Billion Dollar Blockbuster | 9,000 | 9,500 |
| Gas for Life | 198 | 204 |
| Less imputed interest | <u>(244,424)</u> | <u>(296,739)</u> |
| Net present value of grand prizes payable | <u>\$ 768,381</u> | <u>\$ 913,745</u> |
| | | |
| Current prizes payable from restricted assets | \$ 172,589 | \$ 194,955 |
| Noncurrent prizes payable from restricted assets | <u>595,792</u> | <u>718,790</u> |
| Total grand prizes payable | <u>\$ 768,381</u> | <u>\$ 913,745</u> |

The following depicts by fiscal year the value (in thousands) of the grand prize annuities to pay prizewinners:

| <u>Year Ended June 30</u> | <u>Amount</u> |
|--|--------------------------|
| 2011 | \$ 178,569 |
| 2012 | 154,618 |
| 2013 | 132,754 |
| 2014 | 109,945 |
| 2015 | 82,458 |
| 2016-2020 | 157,194 |
| 2021-2025 | 84,163 |
| 2026-2030 | 97,029 |
| 2031-2035 | 11,080 |
| 2036-2039 | <u>4,995</u> |
| Grand prizes (face value) | 1,012,805 |
| Less imputed interest | <u>(244,424)</u> |
| Net present value of grand prizes payable | <u>\$ 768,381</u> |

b. Compensated Absences Payable

Compensated absences payable at June 30 consisted of (in thousands):

| | <u>2010</u> | <u>2009</u> |
|---------------------------------|-----------------|-----------------|
| Current compensated absences | \$ 873 | \$ 889 |
| Noncurrent compensated absences | 2,804 | 2,942 |
| Total | <u>\$ 3,677</u> | <u>\$ 3,831</u> |

c. Changes in Long-Term Liabilities

Changes in long-term liabilities are summarized as follows (in thousands):

| | <u>2009-2010</u> | | | | |
|---|--------------------------|------------------|--------------------|----------------------------------|------------------------------------|
| | Balance | | | | Amount |
| | June 30, 2009 | Additions | Reductions | Balance June 30, 2010 | Due Within One Year |
| Grand prizes payable | \$913,745 | \$56,324 | (\$201,688) | \$768,381 | \$172,589 |
| Compensated absences payable | 3,831 | 1,799 | (1,953) | 3,677 | 873 |
| Postemployment healthcare benefits payable | 458 | 532 | - | 990 | - |
| Total long-term liabilities | <u>\$918,034</u> | <u>\$58,655</u> | <u>(\$203,641)</u> | <u>\$773,048</u> | <u>\$173,462</u> |

| | <u>2008-2009</u> | | | | |
|---|---------------------|------------------|--------------------|----------------------------------|------------------------------------|
| | Balance | | | | Amount |
| | July 1, 2008 | Additions | Reductions | Balance June 30, 2009 | Due Within One Year |
| Grand prizes payable | \$1,046,844 | \$86,881 | (\$219,980) | \$913,745 | \$194,955 |
| Compensated absences payable | 3,749 | 1,775 | (1,693) | 3,831 | 889 |
| Postemployment healthcare benefits payable | 252 | 206 | - | 458 | - |
| Total long-term liabilities | <u>\$1,050,845</u> | <u>\$88,862</u> | <u>(\$221,673)</u> | <u>\$918,034</u> | <u>\$195,844</u> |

See Note 9 for additional information regarding the postemployment healthcare benefits payable.

8. DUE TO EDUCATIONAL ENHANCEMENT TRUST FUND

Effective July 1, 2005, variable percentages of the gross revenue from the sale of On-line and Scratch-Off lottery tickets as determined by the Lottery, and other earned revenue, excluding application processing fees, shall be deposited in the Educational Enhancement Trust Fund (EETF) as provided in Section 24.121, Florida Statutes, as amended. The amount transferred for the fiscal year ended June 30, 2010, was \$1,246,794,000 (31.1 percent of revenues), and for the fiscal year ended June 30, 2009, the transferred amount was \$1,287,855,000 (32.6 percent of revenues).

Because the net appreciation in fair value of investments and amortization of grand prizes payable, included in nonoperating revenue and expenses, relate to valuations of the restricted grand prize investments and grand prizes payable, they are excluded from the determination of transfers to the EETF.

Effective July 1, 2005, provisions of the Act relating to the allocation of revenues for public education were revised. The changes in the provisions were designed to maximize the transfers of moneys to the EETF. These revisions resulted in changes in the methodology used to calculate the transfer based on a business model of revenue minus expenses rather than a percent of revenue.

Included in the current year is a nonrecurring transfer of approximately \$33,556,000. This represents the balance in prior year reserves for unclaimed prizes designated for future prize payouts and Lotto Plus, which no longer required a reserve due to the discontinuation of this game in the 2009-10 fiscal year.

The amount due to the EETF at June 30, 2010, and June 30, 2009, was as follows (in thousands):

| | <u>June 30, 2010</u> | <u>June 30, 2009</u> |
|--|-------------------------|-------------------------|
| On-line ticket sales | \$ 1,822,365 | \$ 1,873,902 |
| Average percent transferred | 39% | 41% |
| Transfer of On-line ticket sales | <u>712,347</u> | <u>767,245</u> |
| Undaimed On-line ticket prizes | 30,166 | 36,816 |
| Percent transferred | <u>80%</u> | <u>80%</u> |
| Transfer of undaimed On-line ticket prizes | <u>24,133</u> | <u>29,453</u> |
| Scratch-Off ticket sales | 2,078,134 | 2,064,135 |
| Average percent transferred | <u>21%</u> | <u>22%</u> |
| Transfer of Scratch-Off ticket sales | <u>442,444</u> | <u>450,384</u> |
| Undaimed Scratch-Off ticket prizes | 24,546 | 21,734 |
| Percent transferred | <u>80%</u> | <u>80%</u> |
| Transfer of undaimed Scratch-Off ticket prizes | <u>19,637</u> | <u>17,387</u> |
| Nonoperating revenues (expenses), net | 43,874 | (1,947) |
| Add: | | |
| Net (appreciation) depreciation in fair value of investments | (90,875) | (46,832) |
| Amortization of grand prizes payable | <u>54,079</u> | <u>64,757</u> |
| Total Nonoperating revenues, net | <u>7,078</u> | <u>15,978</u> |
| On-line fees and miscellaneous revenue | <u>7,599</u> | <u>7,408</u> |
| Nonrecurring transfers, net | <u>33,556</u> | <u>-</u> |
| Due for the year | <u>\$ 1,246,794</u> | <u>\$ 1,287,855</u> |
| Balance due, beginning of year | 83,765 | 112,879 |
| Paid during the year | <u>(1,271,251)</u> | <u>(1,316,969)</u> |
| Due to Educational Enhancement Trust Fund, June 30 | <u><u>\$ 59,308</u></u> | <u><u>\$ 83,765</u></u> |

9. **PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS**

a. **Retirement Programs**

Florida Retirement System. The Florida Retirement System (FRS) is a State-administered cost-sharing multiple-employer retirement plan that offers members an initial choice between participating in a defined benefit plan (FRS Pension Plan) or a defined contribution plan (Public Employee Optional Retirement Program, or FRS Investment Plan) and one additional choice to change plans before retirement. FRS provisions are established by Chapters 121, 122, and 238, Florida Statutes; Chapter 112, Part IV, Florida Statutes; and Florida Retirement System Rules, Chapter 60S, Florida Administrative Code; wherein eligibility, contributions, and benefits are defined and described in detail. Essentially, all employees of participating employers in regularly established positions must be enrolled as members of the FRS or other non-integrated defined contribution plans in lieu of FRS membership.

Benefits in the FRS Pension Plan vest at six years of service. Special Risk Class members are eligible for normal retirement benefits at age 55 and vested or after 25 years of service at any age. All other members are eligible for normal retirement benefits at age 62 and vested or at any age after 30 years of service. Early retirement is available but imposes a penalty for each year a member retires before his or her normal retirement age. Retirement, disability, and death benefits are provided and retirees receive annual cost-of-living adjustments. Benefits are calculated at retirement based on the age, years of service, accrual value by membership class, and average final compensation (average of highest five fiscal years' salaries).

Members of the FRS Pension Plan who reach normal retirement may participate in the Deferred Retirement Option Program (DROP), subject to provisions of Section 121.091(13), Florida Statutes. DROP participants are technically retired, deferring termination and receipt of monthly retirement benefits for up to 60 months. During the period of DROP participation, deferred monthly benefits are held in the FRS Trust Fund and accrue interest.

FRS Investment Plan benefits are established in Part II, Chapter 121, Florida Statutes, and participation is available to all FRS members in lieu of the FRS Pension Plan. Members vest after one year of creditable service for Investment Plan contributions; the funds represented by a present value of Pension Plan service require a total of six years to be vested in those contributions and associated earnings. Benefits under the FRS Investment Plan are based on the account balance at retirement composed of contributions plus investment gains less investment losses and fees. Employer contributions are a percentage of salary and based on membership class (Regular Class, Special Risk Class, etc.). Contributions are directed to individual member accounts and the individual members allocate contributions and account balances among various approved investment choices offered under the plan.

The Florida Legislature establishes uniform contribution rates for participating FRS employers. FRS employers pay the same contribution rate by membership class regardless of whether the members participate in the FRS Pension Plan or FRS Investment Plan. Contribution rates as a percentage of gross salary were as follows:

| <u>Class or Plan</u> | <u>Fiscal Year Ended June 30, 2010</u> | <u>Fiscal Year Ended June 30, 2009</u> |
|--|--|--|
| Senior Management Service | 13.12 percent | 13.12 percent |
| Regular | 9.85 percent | 9.85 percent |
| Special Risk | 20.92 percent | 20.92 percent |
| DROP - Applicable to members from all of the above classes | 10.91 percent | 10.91 percent |

Total employer contribution rates above include 1.11 percent for the postemployment insurance subsidy in addition to the uniform retirement contribution. Also, employer rates, other than for DROP participants, include 0.05 percent for administrative costs of the Public Employee Optional Retirement Program.

FRS Contributions. The Lottery’s liability for participation in the FRS plans defined above is limited to the payment of the required contribution at the rates and frequencies established by law on future payrolls of the Lottery. The Lottery’s contributions for the fiscal years ended June 30, 2010, June 30, 2009, and June 30, 2008, totaled \$1,506,859, \$1,437,059, and \$1,507,485, respectively, which were equal to 100 percent of the required contributions for each fiscal year. These contributions represented 9.2 percent, 8.4 percent, and 9.0 percent of covered payroll, for the fiscal years ended June 30, 2010, June 30, 2009, and June 30, 2008, respectively.

Senior Management Service Optional Annuity Program. Some Lottery employees also participate in the Senior Management Service Optional Annuity Program (SMSOAP). Offered in lieu of FRS participation, the SMSOAP is a defined contribution plan that provides retirement and death benefits to the participant pursuant to Section 121.055, Florida Statutes. Participants have full and immediate vesting of all contributions paid on their behalf to the participating provider companies to invest as directed by the participants. Employees in eligible State positions may make an irrevocable election to participate in the SMSOAP in lieu of the Senior Management Service Class. Employers contributed 12.49 percent of covered payroll for July 2009 through June 2010. This contribution rate includes a contribution that would otherwise be paid to the Retiree Health Insurance Subsidy (HIS) Program described below so the SMSOAP retiree is not eligible to receive monthly HIS benefits. A participant may contribute by salary reduction an amount not to exceed the percentage contributed by the employer. The Lottery’s contributions for the fiscal years ended June 30, 2010, June 30, 2009, and June 30, 2008, totaled \$71,993, \$67,941, and \$67,515 respectively.

Retiree Health Insurance Subsidy Program (HIS). The Retiree Health Insurance Subsidy Program (HIS) was created by the Florida Legislature in 1987 to assist FRS retirees in paying health insurance costs. HIS is a non-qualified, cost-sharing multiple-employer defined benefit pension plan established under Section 112.363, Florida Statutes. For the fiscal years ended June 30, 2010, and 2009, eligible retirees or beneficiaries received a monthly HIS payment equal to the number of years of creditable service completed at the time of retirement multiplied by \$5. The payments to individual retirees or beneficiaries were at least \$30 but not more than \$150 per month. To be eligible to receive HIS, an FRS retiree must apply for the benefit, provide proof of health insurance coverage, which can include Medicare or TRICARE, and be approved.

HIS is funded by required contributions from FRS participating employers. For the years ended June 30, 2010, 2009, and 2008, the Lottery contributed 1.11 percent of payroll for all active employees covered by the FRS, pursuant to Section 112.363, Florida Statutes. For the years ending June 30, 2010, 2009, and 2008, the Lottery contributed \$181,236, \$184,076, and \$185,528, respectively, in employer contributions to the HIS Program. HIS contributions are deposited in a separate trust fund from which HIS payments are authorized. HIS benefits are not guaranteed and are subject to legislative appropriation. If these contributions or appropriation fail to provide full subsidy benefits to all participants, the legislature may reduce or cancel the subsidy payments.

Additional Information. Financial statements and other supplementary information for the FRS and additional disclosures for HIS are included in the State's Comprehensive Annual Financial Report, which may be obtained from the Florida Department of Financial Services. An annual report on the FRS, which includes its financial statements, required supplementary information, actuarial report, and other relevant information, is available from the Florida Department of Management Services, Division of Retirement. Further disclosures and other supplementary information for HIS are included in the Comprehensive Annual Financial Report of the State of Florida, which may be obtained from the Florida Department of Financial Services.

Deferred Compensation Plan. The Lottery, through the State of Florida, offers its employees a deferred compensation plan created in accordance with Section 457 of the Internal Revenue Code. The plan (refer to Section 112.215, Florida Statutes), available to all regular payroll State employees, permits them to defer a portion of their salaries until future years. The deferred compensation is not available to employees until termination, retirement, death, or an unforeseen emergency.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are held in trust for the exclusive benefit of participants and their beneficiaries as mandated by 26 U.S.C.s.457(g)(1).

The Lottery does not contribute to the plan. Participation under the plan is solely at the discretion of the employee.

The State has no liability for losses under the plan but does have the duty of due care that would be required of an ordinary and prudent investor. Pursuant to Section 112.215, Florida Statutes, the Deferred Compensation Trust Fund is created in the State Treasury.

b. Postemployment Healthcare Benefits

The Lottery participates in the State Employees' Health Insurance Program, a cost-sharing multiple-employer defined benefit postemployment healthcare plan administered by the State of Florida, Department of Management Services, Division of State Group Insurance, to provide group health benefits. Section 110.123, Florida Statutes, provides that retirees may participate in the State's group health insurance programs and assigns the authority to establish and amend benefit provisions to the Department of Management Services. Although premiums are paid by the retiree, the premium cost to the retiree is implicitly subsidized by the commingling of claims experience in a single risk pool with a single premium determination. An actuarial valuation has been performed for the plan and the Lottery's employees were included in the actuarial analysis. For more information on the plan regarding the funding policy and actuarial methods and assumptions, see the State's Comprehensive Annual Financial Report, which is available from the Department of Financial Services.

In accordance with GASB Statement 45, the Lottery is required to record its portion of the implicit postemployment health benefit liability beginning in the fiscal year ended June 30, 2008. Postemployment health benefits payable at June 30, 2010, June 30, 2009, and June 30, 2008, was \$990,000, \$458,000, and \$252,000, respectively.

10. OPERATING LEASES

The Lottery has entered into operating leases for the rental of office and warehouse space for the headquarters and district offices as well as the rental of computer equipment. Certain leases are renewable at the option of the Lottery.

Future minimum rental payments as of June 30, 2010, are scheduled as follows (in thousands):

| Year Ending June 30 | Headquarters | Districts | Total |
|------------------------|------------------|-----------------|------------------|
| 2011 | \$ 2,611 | \$ 1,002 | \$ 3,613 |
| 2012 | 2,638 | 1,006 | 3,644 |
| 2013 | 2,664 | 751 | 3,415 |
| 2014 | 2,692 | 398 | 3,090 |
| 2015 | 2,719 | 347 | 3,066 |
| Total | <u>\$ 13,324</u> | <u>\$ 3,504</u> | <u>\$ 16,828</u> |

Rental expense under all operating leases totaled approximately \$3,569,000 and \$2,959,000 for the fiscal years ended June 30, 2010, and 2009, respectively.

11. OTHER COMMITMENTS

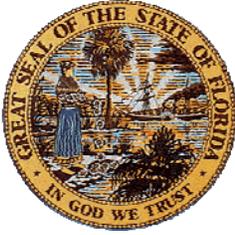
The Lottery has entered into contractual agreements under which On-line and Scratch-Off lottery game vendors provide gaming systems, tickets, and related services. The Lottery's On-line gaming system contractor is compensated at a rate of 1.1499 percent of sales. The contractor's compensation for On-line games for the fiscal years ended June 30, 2010, and 2009, was \$27,390,000, and \$27,982,000, respectively.

The Lottery renewed the On-line gaming contract effective October 8, 2010. The renewal includes a reduced rate of 1.0699 percent of net On-line ticket sales. The new rate will begin when the current contract terms expire in March of 2011.

The Lottery's Scratch-Off ticket vendor is compensated at rates that range from 0.9744 percent to 2.24 percent based on ticket price points and total annual sales. Compensation under this agreement amounted to \$30,896,000 for the fiscal year ended June 30, 2010, and \$31,893,000 for the fiscal year ended June 30, 2009.

12. LITIGATION

The Lottery is involved in litigation and other claims incidental to the ordinary course of its operations. In the opinion of Lottery management, based on the advice of legal counsel, the ultimate disposition of these lawsuits and claims will not have a material adverse effect on the financial position of the Lottery.



DAVID W. MARTIN, CPA
AUDITOR GENERAL

AUDITOR GENERAL STATE OF FLORIDA

G74 Claude Pepper Building
111 West Madison Street
Tallahassee, Florida 32399-1450



PHONE: 850-488-5534
FAX: 850-488-6975

The President of the Senate, the Speaker of the
House of Representatives, and the
Legislative Auditing Committee

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

We have audited the financial statements of the Florida Department of the Lottery (the Lottery) as of and for the fiscal year ended June 30, 2010, and have issued our report thereon included under the heading **INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS**. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

We have examined the effectiveness of the Lottery's internal control over financial reporting as of June 30, 2010, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Lottery's management is responsible for maintaining effective internal control over financial reporting. Our responsibility is to express an opinion on the effectiveness of internal control based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants, and the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Our examination included obtaining an understanding of the internal control over financial reporting, testing and evaluating the design and operating effectiveness of the internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

Because of inherent limitations in any internal control, misstatements due to errors or fraud may occur and not be detected. Also, projections of any evaluation of the internal control over financial reporting to future periods are

subject to the risk that the internal control may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Lottery maintained, in all material respects, effective internal control over financial reporting as of June 30, 2010, based on the criteria established by *Internal Control – Integrated Framework* issued by COSO. While we noted no matters involving internal control over financial reporting and its operation that we consider to be material weaknesses, we did note additional matters involving the internal control over financial reporting, which are discussed in the **SCHEDULE OF FINDINGS**.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Lottery's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, rules, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain additional matters involving legal compliance, which are discussed in the **SCHEDULE OF FINDINGS**.

The Lottery's response to the findings described in the **SCHEDULE OF FINDINGS** section of this report is included as Exhibit – A. We did not audit the Lottery's response and, accordingly, we express no opinion on it.

Pursuant to Section 11.45(4), Florida Statutes, this report is a public record and its distribution is not limited. Auditing standards generally accepted in the United States of America require us to indicate that the provisions of this report relating to compliance and other matters are intended solely for the information and use of the Legislative Auditing Committee, members of the Florida Senate and the Florida House of Representatives, and applicable management and are not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



David W. Martin, CPA
January 20, 2011

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

**FLORIDA LOTTERY****Management's Report on Internal Control Over Financial Reporting**

The Florida Lottery's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance regarding the preparation of reliable financial statements in accordance with accounting principles generally accepted in the United States of America. An entity's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the entity; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures of the entity are being made only in accordance with authorizations of management and those charged with governance; and (3) provide reasonable assurance regarding prevention, or timely detection and correction of unauthorized acquisition, use, or disposition of the entity's assets that could have a material effect on the financial statements.

Management is responsible for establishing and maintaining effective internal control over financial reporting. Management assessed the effectiveness of the Florida Lottery's internal control over financial reporting as of June 30, 2010, based on the framework set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control – Integrated Framework*. Based on that assessment, management concluded that, as of June 30, 2010, the Florida Lottery's internal control over financial reporting is effective based on the criteria established in *Internal Controls – Integrated Framework*.

The Florida Lottery

A handwritten signature in blue ink, appearing to read "Dennis Harmon".

Dennis Harmon
Deputy Secretary

January 20, 2011

**STATE OF FLORIDA
DEPARTMENT OF THE LOTTERY
SCHEDULE OF FINDINGS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

ADDITIONAL MATTERS

Finding No. 1: Information Technology Controls

Information technology (IT) controls are intended to protect the confidentiality, integrity, and availability of data and IT resources. During our audit, we identified the need for enhancements to the Lottery's IT control practices in 24 separate areas, 7 of which were repeated from the prior audit. To avoid the possibility of compromising Lottery information, specific details of these matters are not disclosed in this report. However, the appropriate Lottery personnel have been notified of these issues.

Recommendation: We recommend that the Lottery make the necessary enhancements to its IT control practices to address the issues identified.

Finding No. 2: Minority Retailer Participation

Section 24.113, Florida Statutes, requires that 15 percent of the Lottery's retailers shall be minority business enterprises, as defined in Section 288.703(2), Florida Statutes; however, no more than 35 percent of such retailers shall be owned by the same type of minority person, as defined by Section 288.703(3), Florida Statutes.

Our audit disclosed that as of October 6, 2010, retailers comprising one minority type totaled 65 percent of the total number of minority retailers. A similar finding was included in previous Auditor General reports.

The Lottery has developed an outreach program to increase retailer participation in under-represented minority groups; however, the level of participation from these groups has decreased slightly over the past fiscal year.

Recommendation: We recommend that the Lottery continue to take steps to resolve this finding.

EXHIBIT - A
MANAGEMENT'S RESPONSE



FLORIDA LOTTERY

January 20, 2011

David W. Martin, CPA
Auditor General
G74 Claude Pepper Building
111 West Madison Street
Tallahassee, Florida 32399-1450

Dear Mr. Martin:

The Lottery has received your December 22, 2010 report of preliminary and tentative findings and recommendations resulting from your audit of the Lottery's financial activities for the fiscal year ended June 30, 2010. The staff has discussed your recommendations and responds as follows:

1. Recommendation: The Lottery should make necessary enhancement to its IT control practices to address the issues identified.

Response: The Lottery has an ongoing process to improve technology controls for information technology. The enhancements presented by this audit have been considered and either have been implemented or are in the process of implementation.

2. Recommendation: The Lottery continue to take steps to resolve the Minority Retailer Participation requirement of Section 24.113, Florida Statutes.

Response: As recommended the Lottery has and will continue to address the Minority Retailer Participation criteria established in s.24.113 using a variety of approaches. In addition to attempts to amend s. 24.113(1) to eliminate the conflict created by including both a floor and a ceiling, the Lottery has implemented strategic initiatives to seek out and recruit under-represented minorities. The strategic initiatives include identifying and partnering with minority oriented business associations, conducting retailer recruitment seminars, advertising for new retailers in community newspapers and magazines and exploring non-traditional trade styles for Lottery retailer prospects. As always, the Lottery must ensure that EETF

EXHIBIT - A
MANAGEMENT'S RESPONSE (CONTINUED)

David W. Martin, CPA
Auditor General
Response to Preliminary and Tentative Findings
January 20, 2011
Page 2 of 2

transfers are the foremost objective when making retailer contract and terminal placement decisions.

I would like to thank your staff for their diligent efforts on behalf of the Lottery and look forward to receiving your final report.

Sincerely,



Dennis Harmon
Deputy Secretary

cc: Ken Hart, General Counsel
Marcy Jackson, Chief Financial Officer
Andy Mompeller, Inspector General

[This page intentionally left blank]

[FORM OF BOND COUNSEL OPINION]
 [TO BE DATED DATE OF DELIVERY]

State Board of Education
 of Florida
 Tallahassee, Florida

Division of Bond Finance
 of the State Board of
 Administration of Florida
 Tallahassee, Florida

Ladies and Gentlemen:

We have examined certified copies of the proceedings of the State Board of Education of Florida (the "Board of Education"), the Division of Bond Finance of the State Board of Administration of Florida (the "Division of Bond Finance"), the State Board of Administration of the State of Florida, applicable provisions of the Constitution and laws of the State of Florida, and other proofs submitted to us relative to the issuance and sale of:

\$ _____
 STATE OF FLORIDA
 STATE BOARD OF EDUCATION
 LOTTERY REVENUE REFUNDING BONDS, SERIES 2011A
 Dated _____, 2011
 (the "Bonds")

The Bonds are being issued by the Division of Bond Finance in the name of and on behalf of the Board of Education, for the purpose of refunding a portion of the State of Florida, State Board of Education Lottery Revenue Bonds, Series 2002C and 2003A and paying costs of issuance. The Bonds are being issued under the authority of and in full compliance with the Constitution and statutes of the State of Florida, including particularly Sections 215.57-215.83, Florida Statutes, Sections 24.121(2) and 1013.737, Florida Statutes, and other applicable provisions of law. The principal of, premium, if any, and interest on the Bonds will be secured by and payable from the Pledged Revenues (as defined in the hereinafter defined Resolutions) on a parity with several series of State of Florida, State Board of Education Lottery Revenue Bonds which will be outstanding following the issuance of the Bonds, and any Additional Bonds hereafter issued.

The Bonds do not constitute a general obligation of the State of Florida or any political subdivision thereof within the meaning of any constitutional, statutory or other limitation of indebtedness and the owners thereof shall never have the right to compel the exercise of any ad valorem taxing power or taxation in any form for the payment of the principal of or interest on the Bonds.

Based on our examination, we are of the opinion, as of the date hereof, under existing law, as follows:

1. That such proceedings and proofs show lawful authority for issuance and sale of the Bonds pursuant to the Constitution and statutes of the State of Florida and pursuant to resolutions authorizing the issuance and sale of the Bonds duly adopted by the Governing Board of the Division of Bond Finance on December 16, 1997, which was amended, supplemented and restated on December 18, 2007, as amended and supplemented from time to time, and as supplemented and amended on August 2, 2011 (collectively, the "Resolutions").

2. The Resolutions have been duly authorized and adopted by the Governing Board of the Division of Bond Finance. The provisions of the Resolutions, together with all documents authorized thereby to be executed on behalf of the Division of Bond Finance, are valid and enforceable in accordance with their terms, and create a valid lien on the Pledged Revenues for the security of the Bonds.

3. The Bonds (i) have been duly authorized by the Division of Bond Finance and the Board of Education and executed and delivered by the Division of Bond Finance and (ii) are valid and binding special obligations of the Board of Education enforceable in accordance with their terms, payable solely from the sources provided therefor in the Resolutions.

4. The Bonds and the income thereon are not subject to any State tax except estate taxes imposed by Chapter 198, Florida Statutes, as amended and net income and franchise taxes imposed by Chapter 220, Florida Statutes, as amended.

5. The Internal Revenue Code of 1986, as amended (the "Code"), establishes certain requirements which must be met subsequent to the issuance and delivery of the Bonds in order that interest on the Bonds be and remain excluded from gross income for purposes of federal income taxation. Non-compliance may cause interest on the Bonds to be included in federal gross income retroactive to the date of issuance of the Bonds, regardless of the date on which such non-compliance occurs or is ascertained. The Division of Bond Finance and the Board of Education have covenanted in the Resolutions to comply with such requirements in order to maintain the exclusion from gross income for federal income tax purposes of the interest on the Bonds.

Subject to compliance by the Division of Bond Finance and the Board of Education with the aforementioned covenants, (a) interest on the Bonds is excluded from gross income for purposes of federal income taxation, and (b) interest on the Bonds is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; however interest on the Bonds will be taken into account in determining adjusted current earnings for purposes of computing the alternative minimum tax on corporations. We express no opinion regarding other federal tax consequences caused by the ownership of or the receipt of interest on or the disposition of the Bonds.

It is to be understood that the rights of the owners of the Bonds and the enforceability thereof may be subject to the exercise of judicial discretion in accordance with general principles of equity, to the valid exercise of the sovereign police powers of the State of Florida and of the constitutional powers of the United States of America and to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted.

In rendering the foregoing opinions, we have assumed the accuracy and truthfulness of all public records and of all certifications, documents and other proceedings examined by us that have been executed or certified by public officials acting within the scope of their official capacities and have not independently verified the accuracy or truthfulness thereof and the genuineness of the signatures appearing upon such public records, certifications, documents and proceedings.

Our opinions expressed herein are predicated upon present law, facts and circumstances as of the date of issuance and delivery of the Bonds, and we assume no affirmative obligation to update the opinions expressed herein if such laws, facts or circumstances change after such date.

As Bond Counsel, we have not been engaged nor have we, in such capacity, undertaken to review the accuracy, completeness or sufficiency of the Official Statement or other offering material relating to the Bonds and we express no opinion herein relating thereto.

Very truly yours,

BRYANT MILLER OLIVE P.A.

FORM OF CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (the “Disclosure Agreement”) is executed and delivered by the Florida Department of the Lottery and the State Board of Education of Florida (collectively, the “Departments”) and the Division of Bond Finance of the State Board of Administration of Florida (the “Division”) in connection with the issuance of \$_____ State of Florida, State Board of Education Lottery Revenue Refunding Bonds, Series 2011A (the “Bonds”). This Disclosure Agreement is being executed and delivered pursuant to Section 5.03 of the resolution adopted by the Governor and Cabinet, as the Governing Board of the Division, on August 2, 2011, (the “Resolution”), providing for the issuance of the Bonds. The Departments and the Division covenant and agree as follows:

SECTION 1. PURPOSE OF THE DISCLOSURE AGREEMENT. This Disclosure Agreement is being executed and delivered by the Departments and the Division for the benefit of the Registered Owners and Beneficial Owners of the Bonds and in order to assist the Participating Underwriters in complying with Rule 15c2-12 (the “Rule”) of the Securities and Exchange Commission (the “SEC”). It shall inure solely to the benefit of the Departments, the Division, the Registered Owners, the Beneficial Owners and the Participating Underwriters.

SECTION 2. DEFINITIONS. In addition to the definitions set forth in the Resolution and the Original Resolution authorizing the issuance of the State of Florida, State Board of Education Lottery Revenue Bonds, adopted on December 16, 1997, and as amended, supplemented and restated on December 18, 2007, and as amended and supplemented from time to time, which apply to any capitalized term used in this Disclosure Agreement, the following capitalized terms shall have the following meanings:

“Beneficial Owner” shall mean any person which (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.

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

SECTION 3. CONTINUING DISCLOSURE. (A) Information To Be Provided. The Departments assume all responsibilities for any continuing disclosure as described below. In order to comply with the Rule, the Departments hereby agree to provide or cause to be provided the information set forth below, or such information as may be required to be provided, from time to time, under the Rule.

(1) Financial Information and Operating Data. For fiscal years ending on June 30, 2011, and thereafter, annual financial information and operating data shall be provided within nine months after the end of the Department of the Lottery's fiscal year. Such information shall include:

- (a) Historical Lottery Sales by Game;
- (b) Number of Retail Distributors;
- (c) Statement of Revenues, Expenses and Transfers to the Educational Enhancement Trust Fund;
- (d) Historical Summary Balance Sheet Information;
- (e) Debt Service Coverage; and
- (f) Summary of Operating and Administrative Budget.

(2) Audited Financial Statement. If not submitted as part of the annual financial information, copies of the Department of the Lottery's audited financial statements, prepared in accordance with generally accepted accounting principles, will be provided when and if available.

(3) Material Events Notices. Notice of the following events relating to the Bonds will be provided in a timely manner not in excess of ten business days after the occurrence of the event:

- (a) principal and interest payment delinquencies;
- (b) non-payment related defaults, if material;
- (c) unscheduled draws on debt-service reserves reflecting financial difficulties;
- (d) unscheduled draws on credit enhancements reflecting financial difficulties;
- (e) substitution of credit or liquidity providers, or their failure to perform;
- (f) 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;
- (g) modifications to rights of security holders, if material;
- (h) bond calls, if material, and tender offers;
- (i) defeasances;
- (j) release, substitution or sale of property securing repayment of the securities, if material;
- (k) rating changes;
- (l) bankruptcy, insolvency, receivership or similar event of the obligated person;
- (m) the consummation of merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, 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; and
- (n) appointment of a successor or additional trustee or the change of name of a trustee, if material.

(4) Failure to Provide Annual Financial Information; Remedies.

(a) Notice of the failure of the Departments to provide the information required by paragraphs (A)(1) or (A)(2) of this Section will be provided in a timely manner.

(b) The Departments acknowledge that the undertaking pursuant to the Rule set forth in this Section is for the benefit of the Beneficial Owners and Registered Owners of the Bonds and shall be enforceable only by such Beneficial Owners and Registered Owners; provided that the right to enforce the provisions of such undertaking shall be conditioned upon the same enforcement restrictions as are applicable to the information undertakings in the Resolution and shall be limited to a right to obtain specific enforcement of the Departments' obligations hereunder.

(B) Methods of Providing Information.

(1) (a) Annual financial information and operating data described in paragraph 3(A)(1) and the audited financial statements described in paragraph 3(A)(2) shall be transmitted to the Municipal Securities Rulemaking Board (hereafter "MSRB") using the MSRB's Electronic Municipal Market Access System ("EMMA") or by such other method as may be subsequently determined by the MSRB.

(b) Material event notices described in paragraph 3(A)(3) and notices described in paragraph 3(A)(4) shall also be transmitted to the MSRB using EMMA or by such other method as may be subsequently determined by the MSRB.

(2) (a) Information shall be provided to the MSRB in an electronic format as prescribed by the MSRB, either directly, or indirectly through an indenture trustee or a designated agent.

(b) All documents provided to the MSRB shall be accompanied by identifying information as prescribed by the MSRB.

(C) If this Disclosure Agreement is amended to change the operating data or financial information to be disclosed, the annual financial information containing amended operating data or financial information will explain, in narrative form, the reasons for the amendment and the impact of the change in the type of operating data or financial information being provided.

(D) The Departments' obligations hereunder shall continue until such time as the Bonds are no longer Outstanding or until the Departments shall otherwise no longer remain obligated on the Bonds.

(E) This Disclosure Agreement may be amended or modified so long as:

(1) any such amendments are not violative of any rule or regulation of the SEC or MSRB, or other federal or state regulatory body;

(2) the amendment may only be 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 obligated person, or type of business conducted;

(3) this Disclosure Agreement, as amended, would have complied with the requirements of Rule 15c2-12 of the SEC at the time of the primary offering, after taking into account any amendments or interpretations of the rule, as well as any change in circumstances; and

(4) the amendment does not materially impair the interests of Beneficial Owners or Registered Owners, as determined either by parties unaffiliated with the issuer or obligated person (such as bond counsel), or by approving vote of the Beneficial Owners and Registered Owners pursuant to the terms of the Resolution at the time of the amendment.

SECTION 4. ADDITIONAL INFORMATION. If, when submitting any information required by this Disclosure Agreement, the Departments choose to include additional information not specifically required by this Disclosure Agreement, the Departments shall have no obligation under this Disclosure Agreement to update such information or include it in any such future submission.

Dated this ___ day of _____, 2011.

FLORIDA DEPARTMENT OF THE LOTTERY

STATE BOARD OF EDUCATION OF FLORIDA

By _____
Authorized Officer

By _____
Deputy Commissioner,
Finance and Operations

DIVISION OF BOND FINANCE OF THE
STATE BOARD OF ADMINISTRATION
OF FLORIDA

By _____
Assistant Secretary

[This page intentionally left blank]

PROVISIONS FOR BOOK-ENTRY ONLY SYSTEM OR REGISTERED BONDS**The Depository Trust Company and Book-Entry Only System**

THE INFORMATION IN THIS SECTION CONCERNING DTC AND DTC'S BOOK-ENTRY SYSTEM HAS BEEN OBTAINED FROM SOURCES THAT THE DIVISION OF BOND FINANCE BELIEVES TO BE RELIABLE; HOWEVER, THE DIVISION OF BOND FINANCE TAKES NO RESPONSIBILITY FOR THE ACCURACY THEREOF.

DTC will act as securities depository for the State of Florida, State Board of Education Lottery Revenue Refunding Bonds, Series 2011A (the "2011A Bonds"). The 2011A Bonds will be issued as fully-registered bonds 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 certificate will be issued for each maturity of the 2011A Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

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

Purchases of the 2011A Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2011A Bonds on DTC's records. The ownership interest of each actual purchaser of each 2011A Bond (a "Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which such Beneficial Owner entered into the transaction. Transfers of ownership interests in the 2011A 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 2011A Bonds, except in the event that use of the book-entry system is discontinued.

To facilitate subsequent transfers, all 2011A 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 2011A 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 2011A Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such 2011A 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 2011A Bonds may wish to take certain steps to augment transmission to them of notices of significant events with respect

to the 2011A Bonds, such as redemptions, tenders, defaults, and proposed amendments to the 2011A Bond documents. For example, Beneficial Owners of 2011A Bonds may wish to ascertain that the nominee holding the 2011A Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners.

Redemption notices shall be sent to DTC. If less than all of the 2011A Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the 2011A Bonds unless authorized by a Direct Participant in accordance with DTC's procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Division of Bond Finance as soon as practicable after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the 2011A Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds and principal and interest payments on the 2011A 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 detailed information from the Bond Registrar/Paying Agent, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, (nor its nominee), the Bond Registrar/Paying Agent, the Division of Bond Finance, or the State Board of Education (the "State Board of Education"), subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds and principal and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Bond Registrar/Paying Agent; disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services with respect to the 2011A Bonds at any time by giving reasonable notice to the Division of Bond Finance or Bond Registrar/Paying Agent and discharging its responsibilities with respect thereto under applicable law. The Division of Bond Finance may decide to discontinue use of the system of book-entry transfers for the 2011A Bonds through DTC (or a successor securities depository). Under such circumstances, in the event that a successor securities depository is not obtained, certificates for the 2011A Bonds will be printed and delivered as provided in the documents authorizing the issuance and sale of the 2011A Bonds.

For every transfer and exchange of beneficial interests in the 2011A Bonds, the Beneficial Owner may be charged a sum sufficient to cover any tax, fee or other government charge that may be imposed in relation thereto.

So long as Cede & Co., as nominee of DTC, is the registered owner of the 2011A Bonds, references herein to the Registered Owners or Holders of the 2011A Bonds shall mean Cede & Co. and not mean the Beneficial Owners of the 2011A Bonds unless the context requires otherwise.

The Division of Bond Finance, the State Board of Education and the Bond Registrar/Paying Agent will not have any responsibility or obligation with respect to:

- (i) the accuracy of the records of DTC, its nominee or any DTC Participant or any successor securities depository, participants thereof or nominee thereof with respect to any beneficial ownership interest in the 2011A Bonds;
- (ii) the delivery to any DTC Participant or participant of any successor securities depository or any other person, other than a registered owner, as shown in the Bond Register, of any notice with respect to any 2011A Bond, including, without limitation, any notice of redemption;
- (iii) the payment to any DTC Participant or participant of any successor securities depository or any other person, other than a registered owner, as shown in the Bond Register, of any amount with respect to the principal of, premium, if any, or interest on the 2011A Bonds, or the purchase price of, any 2011A Bond;
- (iv) any consent given by DTC or any successor securities depository as registered owner; or

- (v) the selection by DTC or any DTC Participant or by any successor depository or its participants of the beneficial ownership interests in the 2011A Bonds for partial redemption.

So long as the 2011A Bonds are held in book-entry only form, the Division of Bond Finance, the State Board of Education and the Bond Registrar/Paying Agent may treat DTC and any successor Securities Depository as, and deem DTC and any successor Securities Depository to be, the absolute owner of the 2011A Bonds for all purposes whatsoever, including, without limitation:

- (i) the payment of the principal of, premium, if any, and interest on the 2011A Bonds;
- (ii) giving notices of redemption and other matters with respect to the 2011A Bonds;
- (iii) registering transfers with respect to the 2011A Bonds; and
- (iv) the selection of the beneficial ownership interests in the 2011A Bonds for partial redemption.

Payment, Registration, Transfer and Exchange

The following provisions shall only be applicable if the book-entry-only system of registration is discontinued; for provisions which are applicable while the book-entry only system of registration is in effect, see "Book-Entry Only System" above.

The Division of Bond Finance, the State Board of Education and the Bond Registrar/Paying Agent may treat the Registered Owner of any 2011A Bond as the absolute owner for all purposes, whether or not such 2011A Bond is overdue, and will not be bound by any notice to the contrary.

Principal of and premium, if any, on the 2011A Bonds will be payable upon presentation and surrender of the 2011A Bonds when due at the corporate trust office of U.S. Bank Trust National Association, New York, New York, as Bond Registrar/Paying Agent.

Each 2011A Bond will be transferable or exchangeable only upon the registration books by the Registered Owner or an attorney duly authorized in writing, upon surrender of such 2011A Bond to the Bond Registrar/Paying Agent together with a written instrument of transfer (if so required) satisfactory in form to the Division of Bond Finance of Bond Finance and the Bond Registrar/Paying Agent, duly executed by the Registered Owner or a duly authorized attorney. Upon surrender to the Bond Registrar/Paying Agent for transfer or exchange of any 2011A Bond, duly endorsed for transfer or accompanied by an assignment in accordance with the Resolution, the Bond Registrar/Paying Agent will deliver in the name of the transferee(s) a fully registered 2011A Bond of authorized denomination of the same maturity for the aggregate principal amount which the Registered Owner is entitled to receive.

Neither the Division of Bond Finance nor the Bond Registrar/Paying Agent may charge the Registered Owner or transferee for any expenses incurred in making any exchange or transfer of the 2011A Bonds. However, the Division of Bond Finance and the Bond Registrar/Paying Agent may require payment from the Registered Owner of a sum sufficient to cover any tax, fee, or other governmental charge that may be imposed in relation thereto. Such governmental charges and expenses must be paid before any such new 2011A Bond is delivered.

The Bond Registrar/Paying Agent will not be required to issue, transfer or exchange any 2011A Bonds on the Record Date.

[This page intentionally left blank]