

**State of Florida
Division of Bond Finance**

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Copies of the printed Official Statement may be obtained from:

Florida Division of Bond Finance
1801 Hermitage Boulevard
Suite 200
Tallahassee, Florida 32308

E-Mail: bond@sbafla.com
Phone: (850) 488-4782
Fax: (850) 413-1315

Refunding Issue - Book-Entry Only

This Official Statement has been prepared by the Division of Bond Finance to provide information about the 2014A 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.

\$186,170,000
STATE OF FLORIDA
State Board of Education
Lottery Revenue Refunding Bonds, Series 2014A

Dated: Date of Delivery

Due: July 1, as shown on the inside front cover

Bond Ratings

A+ Fitch Ratings
A1 Moody's Investors Service
AAA Standard & Poor's Ratings Services

Tax Status

In the opinion of Bond Counsel, interest on the 2014A 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 2014A Bonds will be taken into account in determining adjusted current earnings for purposes of computing the alternative minimum tax on corporations. The 2014A 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 2014A Bonds.

Redemption

The 2014A Bonds maturing on and after July 1, 2024, are subject to optional redemption as provided herein.

Security

The 2014A 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 2014A 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 2014A Bonds.**

Lien Priority

The lien of the 2014A 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 2014A Bonds will be \$2,615,292,000, including the principal amount of \$202,730,000 of refunded bonds that will be economically but not legally defeased. See "SECURITY FOR THE 2014A BONDS - Outstanding Bonds" below.

Additional Bonds

Additional Bonds payable on a parity with the 2014A 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 2014A Bonds are being used to refund a portion of the outstanding State of Florida, State Board of Education Lottery Revenue Bonds, Series 2005A and 2006A, and to pay costs of issuance. See "REFUNDING PROGRAM" below.

Interest Payment Dates

January 1 and July 1, commencing July 1, 2014.

Record Dates

December 15 and June 15.

Form/Denomination

The 2014A 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 2014A Bonds will not receive physical delivery of the 2014A Bonds.

Closing/Settlement

It is anticipated that the 2014A Bonds will be available for delivery through the facilities of DTC in New York, New York on March 20, 2014.

**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 2014A Bonds will mature on the dates and bear interest at the rates set forth on the inside front cover.

MATURITY STRUCTURE

<u>Initial CUSIP[®]</u>	<u>Due Date</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Price or Yield*</u>	<u>First Optional Redemption Date and Price</u>
3 4 1 5 0 7 K 9 1	July 1, 2016	\$17,140,000	5.00%	0.38%	-
3 4 1 5 0 7 L 2 5	July 1, 2017	18,010,000	5.00	0.62	-
3 4 1 5 0 7 L 3 3	July 1, 2018	18,905,000	5.00	0.95	-
3 4 1 5 0 7 L 4 1	July 1, 2019	19,850,000	5.00	1.30	-
3 4 1 5 0 7 L 5 8	July 1, 2020	20,840,000	5.00	1.75	-
3 4 1 5 0 7 L 6 6	July 1, 2021	21,880,000	5.00	2.15	-
3 4 1 5 0 7 L 7 4	July 1, 2022	22,975,000	5.00	2.47	-
3 4 1 5 0 7 L 8 2	July 1, 2023	24,130,000	5.00	2.67	-
3 4 1 5 0 7 L 9 0	July 1, 2024**	10,945,000	5.00	2.82	July 1, 2023@100%
3 4 1 5 0 7 M 2 4	July 1, 2025	11,495,000	3.00	99.00	July 1, 2023@100

* Price and yield and information provided by the underwriters.

** The yield on this maturity is calculated to a 100% call on July 1, 2023.

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 2014A 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

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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

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TABLE OF CONTENTS

	<u>PAGE</u>
INTRODUCTION	1
AUTHORITY FOR THE ISSUANCE OF THE 2014A 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	3
DESCRIPTION OF THE 2014A BONDS	3
REDEMPTION PROVISIONS	3
Optional Redemption	3
Notice of Redemption	3
REFUNDING PROGRAM	4
SOURCES AND USES OF FUNDS	4
SECURITY FOR THE 2014A BONDS	5
Pledge of Lottery Revenues	5
Statutorily Required Distributions of Lottery Revenues	5
Debt Service Reserve Account	5
Outstanding Bonds	6
Future Bonding	6
Flow of Funds	7
Covenants with Registered Owners	7
ADDITIONAL BONDS	8
FLORIDA LOTTERY	9
General	9
Administration	9
Current Games	11
Retail Distribution Network	14
Scratch-Off Tickets and Service Providers	14
Terminal Gaming System and Services Provider	15
Marketing	15
Business Development	15
Information Systems	16
Lottery Security	16
Competition	17
Business Risks	18
FINANCIAL DATA OF THE DEPARTMENT	18
Budgetary Process	18
Transfers to the Educational Enhancement Trust Fund	19
Historical Summary of Revenues, Expenses and Transfers to the Educational Enhancement Trust Fund	20
Historical Summary of Statement of Net Position Information	21
Management Discussion and Analysis of Financial History	22
Economic Factors and Strategic Plans	24
Projected Revenues	25
Debt Service Coverage Ratios	27
SCHEDULE OF DEBT SERVICE	29
PROVISIONS OF STATE LAW	29
Bonds Legal Investment for Fiduciaries	29
Negotiability	30
TAX MATTERS	30
General	30
Information Reporting and Backup Withholding	30
Tax Treatment of Bond Premium	31
Tax Treatment of Original Issue Discount	31

State Taxes	32
INDEPENDENT AUDITORS	32
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	35
Execution of Official Statement	35

APPENDIX A	- State of Florida	A-1
APPENDIX B	- Definitions	B-1
APPENDIX C	- Original Resolution	C-1
APPENDIX D	- Eleventh 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
\$186,170,000
STATE OF FLORIDA
State Board of Education
Lottery Revenue Refunding Bonds, Series 2014A

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 \$186,170,000 State of Florida, State Board of Education Lottery Revenue Refunding Bonds, Series 2014A (the “2014A 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”).

The proceeds of the 2014A Bonds will be used to refund a portion of the outstanding State of Florida, State Board of Education Lottery Revenue Bonds, Series 2005A and Series 2006A, 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 2014A 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 2014A 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 2014A Bonds will be \$2,615,292,000, including the principal amount of refunded bonds of \$202,730,000 that will be economically but not legally defeased. **The 2014A Bonds are not secured by the full faith and credit of the State of Florida.** See “SECURITY FOR THE 2014A 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
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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 2014A 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

AUTHORITY FOR THE ISSUANCE OF THE 2014A BONDS

General Legal Authority

The 2014A 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. The Commissioner of Education is appointed by the Board of Education. Pam Stewart 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, Chair - businessman (Ponte Vedra Beach, FL)	December 31, 2014
Ada Armas - physician (Coral Gables, FL)	December 31, 2016
John Colon - investment banker (University Park, FL)	December 31, 2014
Rebecca Fishman Lipsey - businesswoman (Ventura, FL)	December 31, 2017
John R. Padgett, Vice-Chair - private equity investor and philanthropist (Key West, FL)	December 31, 2016
Andy Tuck, citrus grower (Highlands County)	December 31, 2017

*There is currently one vacancy on the Board which has not yet been filled.

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 Florida Constitution, 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 2014A Bonds by a resolution adopted on November 19, 2013.

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 in its entirety 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 December 10, 2013 (the “Eleventh Supplemental Resolution”). The Eleventh Supplemental Resolution is reproduced as Appendix D to this Official Statement. The Original Resolution and the Eleventh Supplemental Resolution are referred to collectively as the “Resolution”.

The Board of Administration approved the fiscal sufficiency of the 2014A Bonds, as required by the State Bond Act, by a resolution adopted on December 10, 2013.

DESCRIPTION OF THE 2014A BONDS

The 2014A Bonds are being issued as fully registered bonds in the denomination of \$1,000 or integral multiples thereof. The 2014A Bonds are payable from the Pledged Revenues as described herein. The 2014A Bonds will be dated the date of delivery thereof, and will mature as set forth on the inside front cover. Interest is payable on July 1, 2014, for the period from the date of delivery thereof to July 1, 2014, and semiannually thereafter on January 1 and July 1 of each year until maturity or redemption.

The 2014A Bonds will initially be issued exclusively in “book-entry” form. Ownership of one 2014A 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 2014A Bonds. Individual purchases of the 2014A Bonds will be made in book-entry form only, and the purchasers will not receive physical delivery of the 2014A Bonds or any certificate representing their beneficial ownership interest in the 2014A 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 2014A Bonds if the book-entry only system of registration is discontinued.

REDEMPTION PROVISIONS

Optional Redemption

The 2014A Bonds maturing in the years 2016 through 2023, both inclusive, are not redeemable prior to their stated dates of maturity. The 2014A Bonds maturing in the year 2024 and thereafter are redeemable prior to their stated dates of maturity, without premium, at the option of the Division of Bond Finance (i) in part, by maturities to be selected by the Division of Bond Finance, and by lot within a maturity if less than an entire maturity is to be redeemed or (ii) as a whole, on July 1, 2023, or on any date thereafter, at the principal amount of the 2014A Bonds so redeemed, together with interest accrued to the date of redemption.

Notice of Redemption

All notices of redemption of 2014A Bonds will be transmitted to the Bond Registrar/Paying Agent, registered securities depositories and the Municipal Securities Rulemaking Board (the “MSRB”) using its Electronic Municipal

Market Access System (“EMMA”), and will be mailed at least 30 days prior to the date of redemption to Registered Owners of the 2014A Bonds to be redeemed, of record as of 45 days prior to the date of redemption. Such notices of redemption will specify the 2014A Bonds to be redeemed, if less than all; the redemption price thereof; the place for presentation thereof; and that interest on the 2014A Bonds so called for redemption will cease to accrue on the redemption date.

Failure to give any required notice of redemption as to any particular 2014A Bonds will not affect the validity of the call for redemption of any 2014A Bonds in respect of which no such failure has occurred. Any notice mailed as provided in the Resolution will be conclusively presumed to have been duly given, whether or not the Registered Owner receives the notice.

REFUNDING PROGRAM

The 2014A Bonds, together with other legally available moneys, will be used to refund a portion of outstanding State of Florida, State Board of Education Lottery Revenue Bonds, Series 2005A maturing in the years 2016 through 2019 and all of the bonds maturing in the years 2020 through 2023, inclusive, in the aggregate outstanding principal amount of \$102,290,000 and all of the Series 2006A maturing in years 2016 through 2025, inclusive, in the aggregate outstanding principal amount of \$100,440,000 (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 2014A Bonds, an agreement will be entered into to provide for the investment of the proceeds of the 2014A Bonds, and the Division of Bond Finance will cause the proceeds of the 2014A 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.

The Refunded Bonds will be called for redemption (by separate redemption notices) on July 1, 2015 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.

SOURCES AND USES OF FUNDS

Sources of Funds:

Par Amount of 2014A Bonds	\$186,170,000
Plus: Net Original Issue Premium	30,227,936
Available Sinking Fund Moneys	<u>2,203,716</u>
Total Sources	<u>\$218,601,652</u>

Uses of Funds:

Deposit of Refunding Proceeds	\$217,801,917
Underwriters Discount	469,012
Cost of Issuance	<u>330,723</u>
Total Uses	<u>\$218,601,652</u>

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

SECURITY FOR THE 2014A BONDS

Pledge of Lottery Revenues

The 2014A 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 2014A 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 2014A Bonds will be \$2,615,292,000, including the principal amount of refunded bonds of \$202,730,000 that have been economically but not legally defeased. See “ADDITIONAL BONDS” below.

The 2014A 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 2014A Bonds. The 2014A 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 terminal 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 terminal 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 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 State colleges within the Florida 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 \$1.6 billion appropriation for Fiscal Year 2013-14 from the Educational Enhancement Trust Fund will be distributed among the programs in the following percentages: 49.91% to public school systems, 13.02% to the Florida College System; 14.71% to the State University System; and 22.36% for scholarship programs for higher education.

Debt Service Reserve Account**

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 Account is funded in amounts sufficient to cover the Maximum Annual Debt Service on the outstanding Series 2005A through Series 2009A Bonds by debt service reserve account surety bonds from Financial Guaranty Insurance Company (“FGIC”) in the aggregate amount of

** There will not be a Debt Service Reserve Account funded for the 2014A Bonds.

\$132,419,941.25, from Ambac Assurance Corporation (“Ambac”) in the aggregate amount of \$62,912,679.25, from MBIA Insurance Corporation (“MBIA”) in the aggregate 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 FGIC surety bonds consist of the 1998A surety in the amount of \$9,349,528.05, which terminates on July 1, 2018, the 1998B surety in the amount of \$15,705,097, which terminates on July 1, 2018, the 1998C surety in the amount of \$19,616,904.95, which terminates on July 1, 2018, the 1999A surety in the amount of \$8,197,912.50, which terminates on July 1, 2019, the 2000A surety in the amount of \$10,406,456.25, which terminates on July 1, 2019, the 2000B surety in the amount of \$13,362,876.25, which terminates on July 1, 2019, the 2000C surety in the amount of \$12,237,312.50, which terminates on July 1, 2020, the 2001B surety in the amount of \$19,354,231.25, which terminates on July 1, 2020, the 2002A surety in the amount of \$12,440,525, which terminates on July 1, 2021, and the 2002B surety in the amount of \$11,749,097.50, which terminates on July 1, 2022. The Ambac surety bonds consist of the 2001A surety in the amount of \$16,454,112.50, which terminates on July 1, 2020, the 2005A surety in the amount of \$16,403,468.75, which terminates on July 1, 2024, the 2006A surety in the amount of \$13,468,348, which terminates on July 1, 2025, and the 2007A surety in the amount of \$16,586,750, which terminates on July 1, 2026. The MBIA surety bonds consist of the 2002C surety in the amount of \$19,110,175, which terminates on January 1, 2022, the 2003A surety in the amount of \$15,749,736.25, which terminates on July 1, 2023, the 2007B surety in the amount of \$20,373,750, which terminates on July 1, 2027, and the 2008A surety in the amount of \$16,652,250, which terminates on July 1, 2027. All of the FGIC, Ambac and MBIA surety bonds secure the bonds for which they were issued and any parity bonds pursuant to the terms of such surety bonds. The Series 2010A&B Bonds and Series 2010C Bonds are secured by separate subaccounts funded by the deposit of bond proceeds in the amounts of \$14,646,103 and \$26,666,468, respectively. Such subaccounts may also serve as the subaccount for future Additional Bonds. No deposits were made to the Debt Service Reserve Account for the Series 2010D, 2010E, 2010F, 2011A and 2012A Bonds. However, these Bonds will be secured by existing surety bonds in the Debt Service Reserve Account pursuant to the terms of such surety bonds until such time as the surety bonds terminate or are otherwise cancelled.

The Eleventh Supplemental Resolution provides that the Debt Service Reserve Account for the 2014A Bonds may be funded in an amount determined by the Director, which amount may be zero. The Reserve Requirement for the 2014A Bonds has been determined to be zero. No deposit will be made to the Debt Service Reserve Account from the proceeds of the 2014A Bonds. However, the 2014A Bonds will be secured by existing surety bonds in the Debt Service Reserve Account pursuant to the terms of such surety bonds until such time as the surety bonds terminate or are otherwise cancelled.

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 2014A 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 2014A Bonds, the aggregate principal amount of Outstanding Bonds will be \$2,615,292,000, including the principal amount of refunded Series 2005A and 2006A Bonds of \$202,730,000 that will be economically but not legally defeased.

Future Bonding

Lottery Revenue Bonds may be issued to finance or refinance the construction, acquisition, reconstruction or renovation of educational facilities in Florida. Historically, Lottery Revenue Bonds have only been used to fund educational facilities for grades K-12. However, the 2011 Florida Legislature amended section 1013.737, Florida Statutes to also permit the issuance of bonds to fund educational facilities at State colleges and universities. Additional Bonds secured on a parity with the Bonds currently authorized or outstanding may be authorized in the future as a source of funding for capital expenditures related to educational facilities. However, at this time, the State does not have any plans for the issuance of Additional Bonds.

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 2014A 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.

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 June 30, 2013, the Department has developed various categories of scratch-off ticket and terminal games and promotions, which have generated over \$73.4 billion in revenues, including over \$40.9 billion in prizes. Since 1988, the Department has transferred approximately \$25.4 billion to the Educational Enhancement Trust Fund. For Fiscal Year 2012-13, weekly sales of scratch-off tickets averaged approximately \$58.2 million, and weekly sales of terminal game tickets averaged approximately \$38.2 million. See “Current Games” below for further descriptions of lottery games.

For Fiscal Year 2012-13, the Florida lottery games ranked second in total sales and ninth in per capita sales among the 44 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 units of the Department include: Brand Management, Sales, Operations, Product Research and Development, Finance and Budget, and Security.

Key Administrative Personnel

Cynthia F. O'Connell – Ms. O'Connell was named Secretary of the Florida Lottery by Governor Rick Scott on February 9, 2011. Secretary O'Connell has an extensive background in the public and private sector including strategic planning at universities and financial institutions. She returned to the Florida Lottery after previously leading the agency's efforts to implement instant and terminal games shortly after its creation. Secretary O'Connell is focused on ensuring that “sound business principles” continue to guide the Florida Lottery and maintain it as one of the most successful lotteries in the country, while modernizing the 25-year-old brand to ensure long-term viability. In addition, she is committed to continuing the Florida Lottery's mission of generating as much additional funds as possible for Florida's education system. To commemorate the agency's 25th anniversary, Secretary O'Connell launched the “Year of the Flamingo” in 2012, a comprehensive series of promotions and events leading to the unveiling of the “reimagined” Florida Lottery brand including a new logo, improved website, new partnerships and promotions, along with interactive community events across the state. In Fiscal Year 2012-13, under Secretary O'Connell's leadership, Florida Lottery sales reached \$5 billion, the highest level in the organization's nearly quarter century of existence, resulting in an all-time record for contributions to education by transferring \$1.42 billion to Florida's Education Enhancement Trust Fund (EETF). A graduate of Florida State University, Secretary O'Connell's undergraduate studies were centered in the fields of Communications and Journalism. She holds a Certificate in post-graduate financial services marketing from the School of Banking at Louisiana State University and is an Honorary Alumnus of the University of Florida as well as a member of Florida Blue Key, the University of Florida honorary leadership society. Ms. O'Connell was also an inaugural member of the University of Florida Board of Trustees from 2001-2011.

Thomas Delacenserie - Mr. Delacenserie was appointed Deputy Secretary of Sales in September 2013. In this role, he oversees the Lottery's sales, business development, product development, marketing research and scratch vendor contracts programs. Prior to this appointment, he served for eight years as the Lottery's Director of Sales and before that was a District Manager in the Fort Myers Office. Before joining the Department, Mr. Delacenserie spent 28 years in consumer product sales as a District, Regional, and Corporate Sales Manager, mostly with Pfizer consumer products. He holds a Bachelor's degree from the University of Wisconsin.

J. Bruce Hoffmann - Mr. Hoffmann was appointed Chief of Staff of the Department in April 2011. He previously served as General Counsel for the Department of Revenue, and, before that, for the Department of Management Services. Mr. Hoffmann served in the Florida House of Representatives from 1988-92. He spent 25 years in private sector legal practice and has numerous community involvements. 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.

Ellyn Hutson - Ms. Hutson was appointed Chief Financial Officer of the Department in October 2013. Ms. Hutson's responsibilities include financial transactions and reporting, budget, cash and investments, retailer contracting and collections, and prize payments. Prior to joining the Department, she established and operated the DNA Sequencing Facility at Florida State University and served in various management capacities within State government, including the Florida Department of Health, the Florida Department of Financial Services, and the Florida Department of Transportation. Ms. Hutson has been a Certified Public Accountant since 2001. Ms. Hutson received a Bachelor of Science degree in Animal Science from Clemson University and a Master of Accounting from Florida State University.

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 terminal games' 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 U.S. 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.

Louisa Warren – Ms. Warren is Deputy General Counsel of the Department and has been with the Lottery since it began in 1987. Prior to joining the Department, she served as an attorney with two other state agencies and as a judicial clerk for Judge Daniel T.K. Hurley at the Fourth District Court of Appeal. She received her B.A. in Anthropology from the University of South Florida and her Juris Doctor degree from the Florida State University.

Current Games

Current lottery games include a mix of scratch-off and terminal 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 paid 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 949 new scratch-off games and continues to market approximately 42 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 jackpots of over \$1 million. Prices of scratch-off game tickets range from \$1 to \$25. 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, 2013 were \$3.0 billion, an increase of 18.0% over the previous year and 60.4% of total sales, making it the highest scratch-off sales year in the history of the Lottery. Annual Scratch-off game sales have increased in all but two of the past 11 years since the passage of legislation, 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"). Since that time, annual Scratch-off game sales surpassed \$1 billion in Fiscal Year 2003, \$2 billion in Fiscal Year 2006 and \$3 billion in Fiscal Year 2013. 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.

Terminal Games - The Department currently offers eight terminal games: FLORIDA LOTTO®, FANTASY 5®, PLAY 4™, CASH 3™, MEGA MONEY™, POWERBALL® MEGA MILLIONS® and MILLIONAIRE RAFFLE™. The Florida Lottery added a second multi-state jackpot game, MEGA MILLIONS®, on May 15, 2013, (see "FINANCIAL DATA OF THE DEPARTMENT - Economic Factors and Strategic Plans"). FLORIDA LOTTO®, FANTASY 5®, and MEGA MONEY™ 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. POWERBALL® and MEGA MILLIONS® are set payout games except that the jackpot is shared pari-mutually among winners in all states. PLAY 4™, CASH 3™, and MILLIONAIRE RAFFLE™ are set prize payout games. Tickets for most games are \$1 except that POWERBALL® costs \$2. CASH 3™ and PLAY 4™ offer tickets for 50¢ or \$1, depending on the type of play selected and MILLIONAIRE RAFFLE™ ticket prices vary depending on the theme of the raffle. Currently, drawings for POWERBALL®, FLORIDA LOTTO®, MEGA MILLIONS® and MEGA MONEY™ are held twice each

week, and the drawing for FANTASY 5® is held nightly. Since 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 add-on features, such as EZmatch™, Power Play® Multiplier® and XTRA, in conjunction with certain games to increase a player's prize amount for additional dollars. LUCKY LINES™, an instant win game that utilized a grid play style and set prize payouts, launched in October 2010 and ended May 15, 2013. Unaudited sales amounts for terminal game tickets for the Fiscal Year ended June 30, 2013 show modest growth of 5.4% at approximately \$2.0 billion. This sales level represents 39.6% 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 and a \$104.8 million in December 2002. FLORIDA LOTTO® has not had a jackpot larger than \$80 million since March 2000. 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 FLORIDA LOTTO® with 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 \$4 to \$1,000,000. Since California joined in April 2013, POWERBALL® can now be purchased in 45 jurisdictions with a combined population of approximately 275 million. POWERBALL® set two new jackpot records in Fiscal Year 2012-2013 including a \$587.5 million jackpot in November 2012 and a \$590.5 million jackpot in May 2013 that was won by a single player in Florida. Players choose five numbers from 1 through 59 and one number from 1 to 35 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 increases the lower tier prizes by a set amount. The current starting jackpot is \$40 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 terminal sales of \$101.56 million in Fiscal Year 2012-2013, resulting in additional Educational Enhancement Trust Fund transfers of \$40.6 million primarily due to increases in POWERBALL® sales.

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. MEGA MILLIONS® set a new world record with a \$656 million jackpot in March 2012. Florida began selling MEGA MILLIONS® on May 15, 2013. In October 2013, MEGA MILLIONS® made game enhancements in which the starting jackpot increased from \$12 million to \$15 million and the matrix was revised to grow bigger jackpots with better overall odds of winning. Players now choose five numbers from 1 through 75 and one number from 1 to 15 for MEGA MILLIONS®. Drawings are held Tuesday and Friday nights. Players can win by matching three, four or five of the winning numbers plus an increase if the Mega Ball number is matched. Players can add the Megaplier® feature to increase all non-jackpot prizes by 2, 3, 4 or 5 times.

The terminal games statewide 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 terminal game provider, GTECH® Corporation (see "Terminal Game 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 LOTTO ^{®1}	FANTASY 5 ^{®2}	PLAY 4 ^{™3}	CASH 3 ^{™4}	MEGA MONEY ^{™5}	MILLIONAIRE	LUCKY LINES ^{™7}	POWERBALL ^{®8}	MEGA MILLIONS ^{®9}	Total	Scratch-off	Combined Sales
											Terminal	Tickets ^{®10}	
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	-	\$233,395	-	-	1,873,901	2,064,135	3,938,036
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	411,389	282,777	235,692	313,270	88,971	12,603	\$45,369	392,969	-	-	1,783,040	2,225,676	4,008,716
2012	419,040	290,672	244,711	314,747	92,346	-	17,692	503,697	-	-	1,882,905	2,566,991	4,449,896
2013 ¹¹	352,375	281,492	244,141	324,539	89,500	12,879	8,582	654,263	\$16,698	1,984,469	3,028,527	5,012,996	

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 LUCKYLINES[™] tickets began October 11, 2010 and ended May 14, 2013.

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

⁹ Sales of MEGA MILLIONS[®] began May 15, 2013.

¹⁰ Sales of Scratch-off Tickets began January 12, 1988. Implementation of increased scratch-off prize payouts began September 1, 2002.

¹¹ Preliminary, unaudited and subject to change.

Retail Distribution Network

Tickets for scratch-off and terminal 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, 2013, there were 13,286 full-service retailers. The current contract with the terminal vendor, which became effective November 26, 2003 for start-up of production operations on January 31, 2005, provided for a base of 12,000 full-service retailer terminals, with the ability to expand to 20,000 terminals (see “Terminal 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 13,500 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 of 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 \$1 billion tickets. The machines are currently averaging \$536 per day per unit. The average weekly sales amount for scratch-off tickets from the ITVMs is \$3,764. 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 terminal gaming system.

During the 2012 Legislative Session, the Department obtained spending authority to install 500 Full Service Vending Machines (FSVMs). The FSVMs offer players the option to purchase Terminal or Scratch-Off tickets. The deployment of the FSVMs began in September 2012 and was completed the week of November 5, 2012. Most of the FSVMs were installed in locations that already had ITVMs. The ITVMs were relocated to new retail locations that were previously identified as viable locations for the equipment. Since installation, FSVMs sales have reached over \$174 million. When looking at sales from January through June 2013, the machines are currently averaging \$251 per day per unit and \$1,747 per week per unit. The FSVMs are leased from GTECH.

Scratch-Off Tickets and Service Providers

Following a competitive procurement process in 2008, the Department entered into a contract with Scientific Games International, Inc. (“Scientific Games”) effective October 1, 2008 as the primary provider of scratch-off tickets. 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. In September 2013, the Department exercised both two year renewal options, extending the contract through September 30, 2018.

The shared-risk contract with Scientific Games embodies the following basic elements: 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 as well as destruction of unsold/discontinued game tickets. Scientific Games is compensated using varying rates that correspond to the net scratch-off ticket sales at each price point as well as an aggregate threshold each year. The agreement provides for liquidated damages, a performance bond, and other liability coverage to protect the Department’s interests. Through leveraging early renewals, the Department negotiated cost savings and increased value options that will result in an estimated \$16 million in increased value during the remaining contract term.

Terminal Gaming System and Services Provider

Following a competitive procurement process in 2003, the Department entered into a contract with GTECH Corporation (“GTECH”) for services necessary to support the terminal games. The contract became effective November 26, 2003 for start-up of production operations on January 31, 2005. In August 2006 GTECH merged with Lottomatica, S.p.A., to form a new entity known as Lottomatica/GTECH. The initial term of the agreement was for six years and had two two-year renewal terms, available at the sole option of the Department. Through leveraging early renewals which will expire March 29, 2015, the Department negotiated an estimated 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 245 U.S. lotteries including New York, California, Massachusetts, Georgia, and Texas. The GTECH agreement includes the installation, operation and maintenance of new terminal 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 13,500 retailers. The base compensation rate during the initial six-year term was 1.1499% of net sales of terminal tickets. This rate changed as of March 27, 2011 to 1.0699% of net sales of terminal tickets for the remainder of the term. A competitive solicitation will be issued in 2014 to acquire a replacement contract for the Department’s gaming system requirements.

Marketing

Advertising and Promotions - The Legislature appropriates the Department’s annual advertising and promotions budget, which is approximately \$37.6 million for Fiscal Year 2013-14. 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 Department has exercised all three one year renewal options. The contract with MGS went into effect on November 8, 2007 and has an initial period of three years, with the option of three one-year renewals. The Department has exercised all three one year renewal options. A solicitation for Spanish-language advertising services is currently underway. During the renewal negotiations, the agency negotiated a 3% reduction in the fees paid for services. The Department has a contract with Golin Harris for public relations services. The new contract was executed in December 2011 and has a base term of three years. It also contains three, one-year renewal options. Funds for public relations 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, terminal 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 terminal 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 42 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 product development process for terminal games tends to be less rapidly paced and requires more research because the terminal game life cycles extend for years. Successful new terminal games must be structured to limit the cannibalization of other terminal games and typically include technology solutions. In addition, strategies such as game enhancements or promotions are developed to extend the life cycles of mature terminal 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 terminal 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 July 2012, when budgetary authority was obtained to allow the retailer network to lease an additional 350 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 terminal game system provided by the contracted terminal game 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 ensure the security and integrity of the operation of the Lottery and to promote public confidence in the Department and the lottery games. This division is responsible for maintaining the security of the facilities, data, and drawings, and the integrity of employees, retailers, contractors and major service providers. Background investigations are conducted on all employees of the Department, retailers, applicants for contracts 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's current evaluation began in January 2014. The most recent evaluation from 2012 states: "Our review indicated the overall security of the Florida Lottery is very good. The results of our organizational scan indicated a very strong security culture within the organization. Employees believe that management sets a strong tone on the importance of security and believe that security measures are consistently applied throughout the organization."

Scratch-off ticket security is ensured by a high level of security at the printer location during printing, packing and delivery of the tickets, and by evaluation and testing 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 and fairness of lottery drawings for terminal 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, who is a state law enforcement officer, and an accountant from an independent certified public accounting firm. A number of additional terminal game 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). In addition, 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. 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. 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. 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 (VLTs) 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 2014A 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 slot facilities are operating in Broward County, and four facilities are operating in Miami-Dade County, including the Hialeah facility which opened in August 2013. An additional facility in Broward (Dania) is slated to open in July 2014. In 2009, the Florida Legislature modified Section 551.102, Florida Statutes, to allow voters to approve slot machines at a countywide referendum held pursuant to a statutory or constitutional authorization enacted after July 1, 2010. This amendment may lead to additional slot facilities in other Florida counties in the future.

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 \$142.7 million and \$142.2 million in tax revenues in Fiscal Years 2011-12 and 2012-13, respectively. The Consensus Estimating

Conference on Slot Machines was held in October 2013 and adopted estimates for such tax revenues of \$170.5 million, \$183.5 million, \$188.3 million, \$192.1 million and \$196.0, for Fiscal Years 2013-14, 2014-15, 2015-16, 2016-17 and 2017-18, 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, VLTs, 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), Glades (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 2014A 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>2009-10</u>	<u>2010-11</u>	<u>2011-12</u>	<u>2012-13</u>	<u>2013-14</u>
Operating/Administrative Expenses	\$40,255	\$40,243	\$38,896	\$37,686	\$40,029
Scratch-off and Terminal Game Service Providers	65,140	63,527	64,319	73,950	77,947
Advertising and Promotions	<u>33,750</u>	<u>33,750</u>	<u>33,750</u>	<u>37,750</u>	<u>37,550</u>
Total Operating Budget ¹	<u>\$139,145</u>	<u>\$137,520</u>	<u>\$136,965</u>	<u>\$149,386</u>	<u>\$155,526</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 2014A 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 presentation of audited financial statements after the close of the fiscal year.

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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 2008-09 through 2012-13, derived from the audited financial statements of the Department. Unaudited interim financial information for Fiscal Year 2013-14 is included for the three month period ending September 2013. The audited financial statements for the Department for Fiscal Year 2012-13 are included in their entirety as Appendix E.

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

	Fiscal Years Ended June 30					As of
	2009¹	2010¹	2011¹	2012¹	2013¹	Sept. 30, 2013²
OPERATING REVENUES:						
Ticket sales	\$3,938,037	\$3,900,499	\$4,008,716	\$4,449,896	\$5,012,996	\$1,264,123
Bad debt expense ³	(1,256)	(1,075)	(1,212)	(1,360)	(912)	(256)
Terminal game fees and miscellaneous	7,198	7,373	7,237	7,465	7,773	1,767
Retailer fees	210	226	199	193	206	47
Total Operating Revenues	3,944,189	3,907,023	4,014,940	4,456,194	5,020,063	1,265,681
OPERATING EXPENSES:						
Prizes	2,340,372	2,346,162	2,460,219	2,766,119	3,162,889	800,451
Retailer commissions	220,548	216,207	223,390	247,690	278,493	70,061
Scratch-off tickets	31,893	30,896	35,520	38,906	44,193	11,166
Terminal game fees	27,982	27,390	27,740	27,622	31,012	7,829
Advertising	34,353	34,197	33,159	33,540	37,696	7,578
Personal services	26,680	27,045	27,204	26,139	25,730	6,365
Other contractual services	7,259	7,474	8,855	8,210	6,812	2,393
Materials and supplies	2,247	2,309	1,921	1,969	2,145	342
Depreciation	684	494	310	446	270	92
Total Operating Expenses	<u>2,692,018</u>	<u>2,692,174</u>	<u>2,818,318</u>	<u>3,150,641</u>	<u>3,589,240</u>	<u>906,277</u>
INCOME FROM OPERATIONS	1,252,171	1,214,849	1,196,622	1,305,553	1,430,823	359,404
NONOPERATING REVENUES (EXPENSES)						
Interest	7,133	6,057	4,893	5,024	3,984	998
Securities lending income	18,183	(2,909)	3,120	3,007	2,543	-
Securities lending fees	(8,980)	(1,520)	(1,400)	(824)	(1,090)	-
Investment management fees	(327)	(364)	(284)	(296)	(376)	-
Net appreciation in fair market value of investments ⁴	46,832	90,875	21,662	60,221	13,750	-
Property disposition (loss)	(31)	(4)	(15)	(4)	(60)	-
Amortization of grand prizes payable	(64,757)	(54,079)	(44,918)	(36,446)	(29,068)	-
Total Nonoperating Revenues (Expenses), Net	<u>(1,947)</u>	<u>43,874</u>	<u>(16,942)</u>	<u>30,682</u>	<u>(37,817)</u>	<u>998</u>
INCOME BEFORE OPERATING TRANSFERS	<u><u>1,250,224</u></u>	<u><u>1,258,723</u></u>	<u><u>1,179,680</u></u>	<u><u>1,336,235</u></u>	<u><u>1,393,006</u></u>	<u><u>360,402</u></u>
TRANSFERS TO EETF						
Transfers from revenue	\$1,241,015	\$1,203,024	\$1,147,793	\$1,286,001	\$1,373,668	\$351,841
Transfers from unclaimed prizes	46,840	43,770	44,025	35,603	50,639	5,635
TOTAL TRANSFERS TO EETF	<u><u>1,287,855</u></u>	<u><u>1,246,794</u></u>	<u><u>1,191,818</u></u>	<u><u>1,321,604</u></u>	<u><u>1,424,307</u></u>	<u><u>357,476</u></u>

Note: numbers may not add due to rounding.

¹ Source: Department of the Lottery. Audited Financial Statements for Fiscal Years 2008-09 through 2012-13.

² Unaudited information for the first quarter of Fiscal Year 2013-14 ending September 2013.

³ Bad debt expense, as required by GASB, was reclassified from an operating expense to a reduction in gross revenue.

⁴ 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 Position Information

The following schedule shows statement of net position (formerly referred to as net asset) information for the Department for Fiscal Years 2008-09 through 2012-13, derived from the audited financial statements of the Department. Unaudited interim financial information for Fiscal Year 2013-14 is included for the three month period ending September 2013. The audited financial statements for the Department for Fiscal Year 2012-13 are included in their entirety as Appendix E.

Department of the Lottery

Historical Summary of Statement of Net Position Information

(In Thousands)

	As of June 30					As of Sept. 30
	<u>2009¹</u>	<u>2010¹</u>	<u>2011¹</u>	<u>2012¹</u>	<u>2013¹</u>	<u>2013²</u>
ASSETS						
CURRENT ASSETS:						
Cash and cash equivalents	\$126,062	\$156,313	\$164,525	\$124,877	\$146,137	\$186,049
Interest receivable	549	468	453	393	165	526
Accounts receivable, net	43,185	16,473	21,254	37,295	46,563	50,976
Inventories	843	1,021	994	1,143	863	863
Prepaid expenses	27	46	68	69	4	4
Security deposits	<u>2,729</u>	<u>2,444</u>	<u>2,565</u>	<u>2,004</u>	<u>2,142</u>	<u>2,255</u>
Total Current Assets	<u>173,395</u>	<u>176,765</u>	<u>189,859</u>	<u>165,785</u>	<u>195,874</u>	<u>240,673</u>
RESTRICTED ASSETS:						
Cash and cash equivalents	50,590	99,419	39,774	5,289	77,063	16,785
Deposit with MUSL	3,073	9,336	15,926	19,995	19,037	19,037
Securities lending income receivable	631	292	476	655	372	-
Pending investment receivable	-	2,816	-	-	-	-
Investments, security lending collateral	842,681	749,137	709,871	603,811	433,111	-
Investments, grand prize	<u>1,029,759</u>	<u>884,058</u>	<u>745,138</u>	<u>661,254</u>	<u>523,992</u>	<u>439,898</u>
Total Restricted Assets	<u>1,926,734</u>	<u>1,745,058</u>	<u>1,511,185</u>	<u>1,291,004</u>	<u>1,053,575</u>	<u>475,720</u>
CAPITAL ASSETS, NET	<u>1,235</u>	<u>1,421</u>	<u>1,248</u>	<u>1,356</u>	<u>3,215</u>	<u>3,120</u>
TOTAL NONCURRENT ASSET	-	-	-	-	1,056,790	-
TOTAL ASSETS	<u>\$2,101,364</u>	<u>\$1,923,244</u>	<u>\$1,702,292</u>	<u>\$1,458,145</u>	<u>\$1,252,664</u>	<u>719,513</u>
LIABILITIES						
CURRENT LIABILITIES:						
Accounts payable and accrued liabilities	\$8,407	\$13,686	\$9,566	\$7,992	\$7,196	\$5,743
Prizes payable	77,745	94,809	89,395	96,483	104,279	98,229
Due to Educational Enhancement Trust Fund	83,765	59,308	81,818	51,604	76,111	124,783
Deposits payable	2,736	2,450	2,567	2,007	2,143	2,257
Compensated absences payable	<u>889</u>	<u>873</u>	<u>809</u>	<u>785</u>	<u>769</u>	<u>768</u>
Total Current Liabilities	<u>173,542</u>	<u>171,126</u>	<u>184,155</u>	<u>158,871</u>	<u>190,498</u>	<u>231,780</u>
CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS						
Securities lending fees payable	749	143	48	98	46	-
Obligations under securities lending	887,749	845,692	731,926	604,556	494,757	-
Grand prizes payable	<u>194,955</u>	<u>172,589</u>	<u>150,465</u>	<u>130,728</u>	<u>112,751</u>	<u>112,751</u>
Total Current Liabilities Payable from Restricted Assets	<u>1,083,453</u>	<u>1,018,424</u>	<u>882,439</u>	<u>735,382</u>	<u>607,554</u>	<u>112,751</u>
NONCURRENT LIABILITIES:						
Grand prizes payable	718,790	595,792	509,513	422,297	343,442	327,148
Compensated absences payable	2,942	2,804	2,743	2,798	2,908	2,908
Post employment healthcare benefits payable	458	990	1,472	2,196	-	-
Other long-term liabilities	-	-	-	-	<u>2,962</u>	<u>2,963</u>
Total Noncurrent Liabilities	<u>722,190</u>	<u>599,586</u>	<u>513,728</u>	<u>427,291</u>	<u>349,312</u>	<u>333,019</u>
TOTAL LIABILITIES	<u>\$1,979,185</u>	<u>\$1,789,136</u>	<u>\$1,580,322</u>	<u>\$1,321,544</u>	<u>\$1,147,364</u>	<u>\$677,550</u>
NET POSITION						
Invested in capital assets	\$1,235	\$1,421	\$1,248	\$1,356	\$3,215	\$3,120
Restricted for Lotto Plus	32,661	-	-	-	-	-
Restricted for undistributed appreciation on restricted investments ²	67,281	109,494	86,237	110,012	67,194	-
Restricted for future prizes or special prize promotions ³	17,929	13,857	18,559	5,238	15,854	-
Restricted for MUSL	<u>3,073</u>	<u>9,336</u>	<u>15,926</u>	<u>19,995</u>	<u>19,037</u>	-
Total Net Position	<u>122,179</u>	<u>134,108</u>	<u>121,970</u>	<u>136,601</u>	<u>105,300</u>	<u>41,963</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$2,101,364</u>	<u>\$1,923,244</u>	<u>\$1,702,292</u>	<u>\$1,458,145</u>	<u>\$1,252,664</u>	<u>\$719,513</u>

Numbers may not add due to rounding.

¹ Source: Department of the Lottery. Audited Financial Statements for Fiscal Years 2008-09 through 2012-13.

² Unaudited information for the first quarter of Fiscal Year 2013-14 ending September 2013.

³ Restricted 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.

⁴ Restricted 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.

Management Discussion and Analysis of Financial History

The Florida Lottery is considered a mature lottery with a full complement of both scratch-off and terminal game 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. The Department again exceeded \$4 billion in ticket sales for Fiscal Year 2011-12 reaching more than \$4.4 billion. Although unaudited at this time, the Department has reached a new sales record of more than \$5 billion, a 12.7% increase over the prior year. Since its inception, the Lottery has transferred over \$25.0 billion to the Educational Enhancement Trust Fund, with the Fiscal Year 2012-13 transfer exceeding \$1 billion for the eleventh 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.

Several of the terminal 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® with Powerplay®. LUCKY LINES™ was launched in October 2010 and ended May 14, 2013. 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 terminal games. In August 2010, CASH 3™ was updated with a new play style called 1-OFF™ and POWERBALL® with Powerplay® was modified in January 2012. The Lottery added MEGA MILLIONS® with Megaplier® to the terminal games on May 15, 2013.

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 and both changes were designed to boost ticket sales by causing more jackpot rollovers resulting in larger jackpots. After the revised format, there have been increases in ticket sales of FLORIDA LOTTO® during the 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 \$10 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 2014A 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 terminal games. However, the implementation of the terminal 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 terminal 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 terminal 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 terminal game enhancement, EZmatch™, which was introduced in March 2006, has generated over \$221 million in sales since its launch and enhanced Educational Enhancement Trust Fund transfers by approximately \$87 million during that time. The change to the variable rate prize payout for terminal 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 2012-13, \$50.6 million of the \$1.42 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 terminal game sales. In addition, the Department increased the retailer base from 12,000 in January 2005 to approximately 13,286 as of June 30, 2013. In Fiscal Year 2012-13, the Educational Enhancement Trust Fund benefited from contributions of over \$623 million more than was transferred in Fiscal Year 1998-99.

In Fiscal Year 2012-13, unaudited ticket sales increased 18.0% for scratch-off games, while terminal game sales increased by 5.4% from the prior year. During Fiscal Year 2008-09 and 2009-10, the Department worked to offset the impact of the economic downturn. During Fiscal Year 2012-13, the Department held its operating costs, which includes gaming vendors, retailer commissions, and department operations, to less than 8.5% of ticket sales.

During Fiscal Year 2012-13, the Department not only continued to utilize proven techniques, but also created new promotions and products. The focus throughout the year was on the Lottery's 25th Anniversary. In September 2012, a \$25 Scratch-off ticket, MILLIONAIRE, was introduced and non-winning tickets could be entered into a second chance promotion with opportunities to win cash and prizes. The Department introduced MEGA MILLIONS® with Megaplier® on May 15, 2013. During the fall of 2012, the Department installed 500 FSVMs, which allow players to purchase both Scratch-off and Terminal tickets. The FSVMs were placed in locations that had top ITVM sales.

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, 2013, this performance measure was again set at 9.52% of total revenue including retailer commissions, terminal games expenses, scratch-off ticket expenses, advertising and other administrative expenses. Based on unaudited data for Fiscal Year 2012-13, operating expense, not including prize payouts, was 8.48% of total revenues. Retailer commissions, terminal games expense and scratch-off ticket expense are approximately 7.1% 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 terminal game 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 State 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 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 Position.

On the Statement of Net Position, the line item "Investments, security lending collateral" consists of investments representing cash collateral held by the State Board of Administration on the Department's behalf as part of a securities lending program. The securities lending program administered by the State 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 February 2014 Florida Economic Estimating Conference, the population is forecasted to increase 1.1% and 1.3% for the Fiscal Years ending June 30, 2014, and June 30, 2015, respectively. Based on the February 2014 Conference, during these periods real per capita income is expected to increase by 2.0% and 2.7%, respectively and total non-farm employment is forecasted to increase by 2.4% and 2.5%, 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, strategic inventory ordering and improved launch schedules. Licensed property scratch-off games, such as Wheel of Fortune®, Monopoly™, Price is Right® and Guy Harvey®, broaden the appeal to new players.

The Florida Lottery's terminal game 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 terminal game focus in recent years has been with higher price point terminal games. As previously discussed, the Department joined the multi-state game POWERBALL® as another product offering. The base price for POWERBALL® was increased to \$2 in 2012. POWERBALL® players continue to be able to add Power Play® for \$1 more to increase their non-jackpot prizes. Florida joined MEGA MILLIONS® in May 2013. MEGA MILLIONS® made changes to the game in October 2013. MEGA MILLIONS® still costs \$1 to play and players can add the Megaplier® for \$1 more per play to increase their payouts on all 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. LUCKY LINES™ was an instant-win terminal game in which players could win prizes by matching numbers in rows similar to Bingo. LUCKY LINES™ was replaced by MEGA MILLIONS® in May 2013.

Refresh the Lottery brand through new approaches with technology - To celebrate our 25th anniversary in January 2013, the Florida Lottery rolled out a new brand image campaign. 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 is now seen on various social media allowing interaction not only with current customers, but future customers as well as to increase overall awareness of the Florida Lottery.

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 that include minority retailers, as well as 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. In 2012, the Department was given approval to add 500 Full Service Vending Machines that sell both terminal and scratch-off games. These machines were installed primarily in supermarkets between September and November 2012. The Department continues to focus 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. The Department believes the new full-service vending machine will be a pivotal piece of equipment in recruiting the new corporate accounts.

Increase the focus of research and product development for the terminal game product segment - Over the past seven years, the Department's terminal game ticket sales have grown by 7.9%, while scratch-off ticket sales have increased by 32.6%. 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 seven years with moderate growth in domestic terminal game sales. The Department's net margin for its terminal game product segment is larger than that of the scratch-off product segment. The Department continues to balance its efforts to increase scratch-off sales while focusing on ways to continue to increase terminal game 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, terminal game promotions, second chance offers and the exploration of new terminal game concepts that follow conservative and traditional terminal game play styles. An increase in terminal game prize payouts and expansion of the Department's network of full-service retailers as described above is expected to boost total terminal 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 terminal game 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 a portion of the unclaimed prize money that could go directly to the Educational Enhancement Trust Fund. Providing the Department the flexibility to vary the prize payout percentage allows both scratch-off and terminal 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 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; and (ii) the overall state of the economy; (see "FINANCIAL DATA OF THE DEPARTMENT - Management Discussion and Analysis of Financial History").

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 2013 and February 2014. The November forecast of total income remained unchanged from the previous July forecast of \$5.02 billion of Fiscal year 2012-13; unaudited year-end numbers indicate total income of \$5.02 billion, which was consistent with the forecasts. The November 2013 forecast increased projected total income over the July forecast by \$197.2 million, \$184.9 million, \$186.6 million and \$191.8 million for Fiscal years 2013-14, 2014-15, 2015-16 and 2016-17, to \$5.32 billion, \$5.41 billion, \$5.50 billion and \$5.58 billion, respectively.

The February 2014 forecast increased projected total income over the November 2013 forecast by \$55.3 million, \$144.9 million, \$196.3 million, \$229.6 million and \$251.9 for Fiscal Years 2013-14, 2014-15, 2015-16, 2016-17 and 2017-18, to \$5.39 billion, \$5.57 billion, \$5.71 billion, \$5.82 and \$5.92 billion, respectively. The largest increase in the sales forecast was to the projection for scratch-off sales, which were increased by \$71.0 million in Fiscal Year 2013-14 and \$174.6 million in Fiscal Year 2014-15 and MEGA MILLIONS®, which were increased by \$50.4 million in Fiscal Year 2013-14 and \$32.2 million in Fiscal Year 2014-15, and by approximately \$32 to \$34 million in each Fiscal Year thereafter.

The conference had estimated that Florida traditional terminal games would have been negatively impacted in Fiscal Year 2012-13 as a result of the introduction of MEGA MILLIONS® on May 15, 2013. Contrary to expectations, sales of non-MEGA MILLIONS® terminal games increased in Fiscal Year 2012-13 from Fiscal Year 2011-12 by \$84.9 million to \$1.97 billion; total terminal game sales were \$1.98 billion.

Forecasts for CASH 3™ and FLORIDA LOTTO® were slightly decreased while FANTASY 5®, PLAY 4™ and MEGA MONEY™ forecasts were revised slightly upward based on performance. The conference projected sales for POWERBALL® that were decreased substantially from the November 2013 forecast. The forecast was reduced by \$72 to \$76 million in each year from Fiscal Year 2013-14 through Fiscal Year 2018-19.

The projections for non-ticket income were increased by \$1.3 million for Fiscal Year 2013-14 to \$12.4 million and remained steady at \$12.6 million for each year of the forecast thereafter. The forecast for 80% unclaimed prizes available for immediate transfer to EETF was increased from the previous forecast of \$39.5 million in Fiscal Year 2013-14 to \$40.0 million.

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, prior year pressures placed on the discretionary spending dollar of consumers are waning in the current economic environment as evidenced by a slight increase in disposable income and nominal increases in inflation.

Department of the Lottery
Projections of Lottery Revenues from Revenue Estimating Conferences of
July 2013, November 2013 and February 2014
(In Millions)

	July 2013 Estimate	November 2013 Estimate	February 2014 Estimate	November 2013 to February 2014	November 2013 to February 2014
<u>FY 2013-14</u>					
Total Income	\$5,125.9	\$5,335.5	\$5,390.8	\$55.3	1.0%
Education	1,417.3	1,478.7	1,485.5	6.8	0.5%
<u>FY 2014-15</u>					
Total Income	5,228.2	5,425.7	5,570.6	144.9	2.7%
Education	1,441.9	1,491.7	1,515.8	24.1	1.6%
<u>FY 2015-16</u>					
Total Income	5,311.0	5,510.2	5,706.6	196.3	3.6%
Education	1,460.6	1,510.2	1,545.0	34.8	2.3%
<u>FY 2016-17</u>					
Total Income	5,388.7	5,593.1	5,822.7	229.6	4.1%
Education	1,486.0	1,537.3	1,579.0	41.7	2.7%
<u>FY 2017-18</u>					
Total Income	5,460.0	5,669.9	5,921.8	251.9	4.4%
Education	1,504.4	1,558.1	1,604.7	46.6	3.0%
<u>FY 2018-19</u>					
Total Income	N/A	5,746.9	5,997.9	251.0	4.4%
Education	N/A	1,619.6	1,657.3	37.7	2.3%

Numbers may not add due to rounding.

Source: November 2013 and February 2014 Consensus Revenue Estimating Conferences.

¹ These figures reflect the transfers to the EETF 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."

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 2014A Bonds (excluding the refunded Series 2005A and 2006A Bonds that have been economically but not legally defeased), and the estimated maximum aggregate annual debt service on the Bonds.

Debt Service Coverage on Historical Pledged Revenues (In Thousands)

	Fiscal Years Ended June 30				
	2009¹	2010¹	2011¹	2012¹	2013¹
Pledged Revenues	\$1,287,855	\$1,246,794	\$1,191,818	\$1,321,663	\$1,424,307
Annual Debt Service for Outstanding Bonds ²	\$285,121	\$303,446	\$306,079	\$311,590	\$313,851
Debt Service Coverage on Annual Debt Service for Outstanding Bonds	4.5x	4.1x	3.9x	4.2x	4.5x
Maximum Annual Debt Service for Outstanding Bonds	\$293,388	\$336,626	\$329,367	\$327,000	\$333,642
Debt Service Coverage on Maximum Annual Debt Service for Outstanding Bonds	4.4x	3.7x	3.6x	4.0x	4.3x

¹ Source: Department of the Lottery Audited Financial Statements for Fiscal Years 2008-09 through 2012-13.

² Actual debt service without consideration of receipt of the Federal subsidy equal to 35% of the interest payable on the 2010B Bonds, which does not constitute Pledged Revenue but was deposited in the Sinking Fund.

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Debt Service Coverage on Projected Revenues
(In Thousands)

	Fiscal Years Ending June 30				
	2014	2015	2016	2017	2018
Pledged Revenues ¹	\$1,485,500	\$1,515,800	\$1,545,000	\$1,579,000	\$1,604,700
Annual Debt Service on Outstanding Bonds and 2014A Bonds ²	\$314,993	\$314,181	\$312,566	\$312,559	\$331,128
Debt Service Coverage on Annual Debt Service on Outstanding Bonds and 2014A Bonds ³	4.72x	4.82x	4.94x	5.05x	4.85x
Maximum Annual Debt Service on Outstanding Bonds and 2014A Bonds ^{2,4}	\$331,128	\$331,128	\$331,128	\$331,128	\$331,128
Debt Service Coverage on Maximum Annual Debt Service on Outstanding Bonds and 2014A Bonds ⁵	4.49x	4.58x	4.67x	4.77x	4.85x

¹ Projections from the February 2014 Consensus Revenue Estimating Conference. 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 \$5.0 million in 2014, \$10 million in 2015, and \$28.1 million annually in 2016 through 2018 for the Series 2005A and 2006A Bonds which will be refunded by the 2014A Bonds and which will be called for redemption on July 1, 2015. The refunded bonds will be economically, but not legally, defeased.

³ The Debt Service Coverage on Annual Debt Service on Outstanding Bonds and 2014A Bonds would total 4.67x, 4.68x, 4.53x, 4.63x and 4.46x for Fiscal Years 2014-2018, respectively, if debt service on the refunded Series 2005A and 2006A Bonds is included in annual debt service.

⁴ Maximum Annual Debt Service for all Outstanding Bonds and the 2014A Bonds is estimated to occur in Fiscal Year 2018. Amount shown exclude debt service of approximately \$4.7 million in Fiscal Year 2014, \$9.4 million in Fiscal Year 2015, \$28.7 million in Fiscal Years 2016 through 2023, and \$13.0 million in Fiscal Years 2024 and 2025 for the Series 2005A and 2006A Bonds which will be refunded by the Series 2014A Bonds and which will be called for redemption on July 1, 2015. For a more detailed explanation, see note 2, above.

⁵ The Debt Service Coverage on Maximum Annual Debt Service on Outstanding Bonds and 2014A Bonds would total 4.13x, 4.21x, 4.29x, 4.39x and 4.46x for Fiscal Years 2014-2018, respectively, if debt service on the 2005A and 2006A Bonds is included in maximum annual debt service on Outstanding Bonds and 2014A 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.***

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SCHEDULE OF DEBT SERVICE*

The table below shows the debt service on the Outstanding Bonds, the debt service on the 2014A Bonds, and the total debt service.

Fiscal Year Ending <u>June 30</u>	Debt Service on Outstanding Bonds ^{1, 2, 3}	2014A Bonds Debt Service			Total Debt Service
		Principal	Interest	Total	
2014	\$312,445,115	-	\$2,547,478	\$2,547,478	\$314,992,593
2015	305,102,571	-	9,078,600	9,078,600	314,181,171
2016	286,347,808	\$17,140,000	9,078,600	26,218,600	312,566,408
2017	286,327,508	18,010,000	8,221,600	26,231,600	312,559,108
2018	304,901,658	18,905,000	7,321,100	26,226,100	331,127,758
2019	253,842,421	19,850,000	6,375,850	26,225,850	280,068,271
2020	214,569,237	20,840,000	5,383,350	26,223,350	240,792,587
2021	171,846,834	21,880,000	4,341,350	26,221,350	198,068,184
2022	160,029,058	22,975,000	3,247,350	26,222,350	186,251,408
2023	130,906,961	24,130,000	2,098,600	26,228,600	157,135,561
2024	131,609,805	10,945,000	892,100	11,837,100	143,446,905
2025	115,020,635	11,495,000	344,850	11,839,850	126,860,485
2026	114,807,336	-	-	-	114,807,336
2027	98,005,936	-	-	-	98,005,936
2028	60,760,005	-	-	-	60,760,005
2029	19,286,892	-	-	-	19,286,892
2030	6,643,700	-	-	-	6,643,700
2031	6,641,300	-	-	-	6,641,300
2032	<u>6,643,500</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,643,500</u>
	<u>\$2,985,738,279</u>	<u>\$186,170,000</u>	<u>\$58,930,828</u>	<u>\$245,100,828</u>	<u>\$3,230,839,108</u>

* Totals may not add due to rounding.

¹ Interest on the Series 2010B Bonds was calculated without consideration of the expected receipt of the federal subsidy equal to 35% of the interest payable on the Series 2010B Bonds which does not constitute Pledged Revenues but is expected to be deposited into the Sinking Fund.

² Fiscal Year 2014 debt service includes \$1,673,709 of accrued debt service on the Refunded Bonds transferred to the escrow account.

³ Excludes debt service of approximately \$5.0 million in 2014, \$10.0 million in Fiscal 2015, \$28.7 million annually in 2016-2023, and \$13.0 million in 2024-2025 for the Series 2005A and 2006A Bonds which were refunded by the 2014A Bonds and which will be called for redemption on July 1, 2015. The refunded bonds were not legally defeased.

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 2014A Bonds will have all the qualities and incidents of negotiable instruments under the Uniform Commercial Code - Investment Securities Law of the State.

TAX MATTERS

General

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 2014A Bonds in order that interest on the 2014A Bonds be and remain excluded from gross income for purposes of federal income taxation. Non-compliance may cause interest on the 2014A Bonds to be included in federal gross income retroactive to the date of issuance of the 2014A 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 2014A 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 2014A Bonds.

In the opinion of Bond Counsel, assuming compliance with the aforementioned covenants, under existing laws, regulations, judicial decisions and rulings, interest on the 2014A Bonds is excluded from gross income of the holders thereof for purposes of federal income taxation. Interest on the 2014A 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 2014A Bonds will be taken into account in determining adjusted current earnings for purposes of computing the alternative minimum tax on corporations. The 2014A 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 2014A Bonds. Prospective purchasers of 2014A Bonds should be aware that the ownership of 2014A 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 2014A Bonds, (ii) the reduction of the loss reserve deduction for property and casualty insurance companies by 15% of certain items, including interest on the 2014A Bonds, (iii) the inclusion of interest on the 2014A 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 2014A 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 2014A 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.

Information Reporting and Backup Withholding

Interest paid on tax-exempt bonds such as the Bonds is subject to information reporting to the Internal Revenue Service in a manner similar to interest paid on taxable obligations. This reporting requirement does not affect the excludability of interest on the Bonds from gross income for federal income tax purposes. However, in conjunction with that information reporting requirement, the Code subjects certain non-corporate owners of Bonds, under certain circumstances, to "backup withholding" at (i) the fourth lowest rate of tax applicable under Section 1(c) of the Code (i.e., a rate applicable to unmarried individuals) for taxable years beginning on or before December 31, 2012; and (ii) the rate of 31% for taxable years beginning after December 31, 2012, with respect to payments on the Bonds and proceeds from the sale of Bonds. Any amount so withheld would be refunded or allowed as a credit against the federal income tax of such owner of Bonds. This withholding generally applies if the owner of Bonds (i) fails to furnish the payor such owner's social security number or other taxpayer identification number ("TIN"), (ii) furnished the payor an incorrect TIN, (iii) fails to properly report interest, dividends, or other "reportable payments" as defined in the Code, or (iv) under certain circumstances, fails to provide the

payor or such owner's securities broker with a certified statement, signed under penalty of perjury, that the TIN provided is correct and that such owner is not subject to backup withholding. Prospective purchasers of the Bonds may also wish to consult with their tax advisors with respect to the need to furnish certain taxpayer information in order to avoid backup withholding.

Tax Treatment of Bond Premium

The 2014A Bonds maturing in the years 2016 through 2024 were offered and sold to the public 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 2014A Bonds by the amount of amortizable bond premium attributable to each taxable year such bondholder holds such 2014A 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 2014A 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 2014A Bonds.

Tax Treatment of Original Issue Discount

The 2014A Bonds maturing in 2025 were offered and sold to the public at prices below their maturity amount. Under the Code, the difference between the maturity amounts of such 2014A 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 2014A Bonds of the same maturity was sold is "original issue discount." Original issue discount will accrue over the terms of such 2014A Bonds at a constant interest rate compounded periodically. A purchaser who acquires such 2014A 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 2014A Bonds, and will increase his adjusted basis in such 2014A Bonds by the amount of such accruing discount for purposes of determining taxable gain or loss on the sale or other disposition of such 2014A Bonds. The federal income tax consequences of the purchase, ownership and redemption, sale or other disposition of such 2014A 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 2014A 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 2014A Bonds and with respect to the state and local tax consequences of owning and disposing of such 2014A Bonds.

Purchase, ownership or sale or disposition of the 2014A Bonds and the receipt of the interest thereon may have adverse federal tax consequences for certain individual and corporate bondholders. Prospective 2014A 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 2014A 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 2014A 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 2014A 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 2014A Bonds. For example, in connection with federal deficit reduction, job creation and tax law reform efforts, proposals have been made and others are likely to be made that could significantly reduce the benefit of, or otherwise affect, the exclusion from gross income of interest on obligations like the 2014A Bonds. There can be no assurance that any such legislation or proposal will be enacted, and if enacted, what form it may take. The introduction or enactment of any such legislative proposals may affect, perhaps significantly, the market price for, or marketability of the 2014A Bonds.

State Taxes

The 2014A 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 2014A Bonds should consult their own attorneys and advisors for the treatment of the ownership of the 2014A Bonds for estate tax purposes.

The 2014A 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, 2013, 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 2014A 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 December 31, 2013, the ratio was approximately 60% internally managed funds, 37% externally managed funds, 3% Certificates of Deposit and 6% in an externally managed Security Lending program. The total portfolio market value on December 31, 2013, was \$21,776,003,641.69.

Under State law, the Treasury is charged with investing funds of each State agency and the judicial branch. As of December 31, 2013, \$13.283 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; additionally, \$7.185 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 Comprehensive Investment Policy. Investments managed for short-term liquidity and preservation of principal are managed "internally" by Treasury personnel. Treasury personnel also manage approximately \$2.9 billion to cash enhanced and intermediate strategies to provide additional return. The majority of investments managed for a maximum return are managed by "external" investment managers not employed by the State.

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, 2013, the Board of Administration directed the investment/administration of 38 funds in over 500 portfolios.

As of December 31, 2013 the total market value of the FRS (Defined Benefit) Trust Fund was \$143,786,857,589.33. 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 37 designated funds other than the FRS (Defined Benefit) Trust Fund. As of December 31, 2013, the total market value of these funds equaled \$33,173,686,482.92. 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 AAA, A1 and A+, respectively, to the 2014A 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 2014A 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 2014A 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 stable outlook by S&P and a positive outlook by 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 arithmetical accuracy of the mathematical computations supporting the adequacy of the funds deposited to redeem the Refunded Bonds and interest earnings thereon to pay the principal of, redemption premium and interest on the Refunded Bonds and the arithmetical accuracy of the mathematical computation relating to the investment of the funds, supporting the conclusion that the 2014A 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 2014A Bonds. The Refunded Bonds will be economically, but not legally defeated. 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 2014A Bonds or questioning or affecting the validity of the 2014A Bonds or the proceedings and authority under which such 2014A 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 2014A 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 2014A 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 2014A 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 2014A 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

Morgan Stanley & Co. LLC (the “Underwriters”) have agreed to purchase the 2014A Bonds at an aggregate purchase price of \$215,928,923.54 (which represents the par amount of the 2014A Bonds plus a net original issue premium of \$30,227,935.85 and minus the Underwriters’ discount of \$469,012.31). The Underwriters may offer and sell the 2014A 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 2014A Bonds set forth on the inside front cover may be changed after the initial offering by the Underwriters.

Morgan Stanley, parent company of Morgan Stanley & Co. LLC., an underwriter of the Bonds, has entered into a retail distribution arrangement with Morgan Stanley Smith Barney LLC. As part of the distribution arrangement, Morgan Stanley & Co. LLC may distribute municipal securities to retail investors through the financial advisor network of Morgan Stanley Smith Barney LLC. As part of this arrangement, Morgan Stanley & Co. LLC may compensate Morgan Stanley Smith Barney LLC for its selling efforts with respect to the Bonds.

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

RICK SCOTT
Governor, as Chairman
of the Governing Board

J. BEN WATKINS III
Director, Division of Bond Finance

STATE BOARD OF EDUCATION

GARY CHARTRAND
Chair

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APPENDIX A

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.

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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-11
Evaluation, Accounting and Auditing Procedures	A-12
REVENUES	A-12
Sales and Use Tax	A-12
Motor Fuel Tax	A-12
Alcoholic Beverage Tax	A-12
Documentary Stamp Tax	A-13
Intangible Personal Property Tax	A-13
Insurance Premium Tax	A-13
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
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
2011 Legislation Affecting FRS Benefits and Funding	A-27
RETIREE HEALTH INSURANCE SUBSIDY AND OTHER POSTEMPLOYMENT BENEFITS	A-31
Retiree Health Insurance Subsidy Program	A-31
Other Postemployment Benefits (OPEB)	A-32
UNEMPLOYMENT COMPENSATION TRUST FUND	A-34

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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 twelve 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 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 whistleblower 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 19.3 million as of April 1, 2013. This represents nearly a 1.0% increase from April 1, 2012.

While the State's population grew by 20.5% between 2000 and 2013, annual population growth has slowed considerably in recent years. Florida's average annual population growth rate was 1.7% from 2000 to 2010, which exceeded the nation's average annual population growth rate of 0.9% over the same period. However, Florida's average annual population growth rate decreased to 0.8% between 2011 and 2013, which was on pace with the US average annual growth rate of 0.8% for the same time 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 17.3% of the State's population and is projected to increase to 20.5% 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 61.4% of total population and is expected to decline to 59.1% 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)

<u>Year</u>	<u>Florida</u>		<u>U. S.</u>	
	<u>(in thousands)</u>	<u>% change</u>	<u>(in thousands)</u>	<u>% change</u>
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)	21,141	12.4	336,836	9.1

Source: Office of Economic and Demographic Research, The Florida Legislature (February, 2013) 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%	1,073,506	5.7%	1,165,828	5.5%	1,303,639	5.5%
5 to 17	2,700,597	16.9%	2,928,585	15.6%	3,145,519	14.9%	3,410,950	14.4%
18-24	1,330,636	8.3%	1,739,657	9.3%	1,816,756	8.6%	1,969,128	8.3%
25-44	4,569,515	28.6%	4,720,799	25.1%	5,216,198	24.7%	5,876,035	24.9%
45-64	3,628,573	22.7%	5,079,161	27.6%	5,469,092	25.9%	5,361,718	22.7%
65+	<u>2,807,650</u>	17.6%	<u>3,259,602</u>	17.3%	<u>4,327,922</u>	20.5%	<u>5,679,602</u>	24.1%
Total	15,982,824		18,801,310		21,141,315		23,601,072	

Source: Office of Economic and Demographic Research, The Florida Legislature. (Demographic Estimating Conference, February, 2013).

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 2012 is estimated at \$777 billion, which is slightly higher than 2011 GDP of \$661 billion.

Florida's GDP has increased 8.8% over the past five years from \$715 billion in 2007 to \$777 billion in 2012. Private industry

accounted for 88% of the State's 2012 GDP and government accounted for the remaining 12%. Real estate was the largest single industry, accounting for 16% of Florida's 2012 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 2007 and 2012

(millions of chained 2005 dollars)¹

<u>Industry</u>	<u>2007</u>	<u>% of Total</u>	<u>2012</u>	<u>% of Total</u>
Agriculture, forestry, fishing and hunting	\$5,132	0.7%	\$6,076	0.8%
Mining	955	0.1	1,665	0.2
Utilities	13,122	1.8	17,708	2.3
Construction	44,836	6.3	30,646	3.9
Manufacturing	40,563	5.7	37,023	4.8
Wholesale trade	47,614	6.7	51,074	6.6
Retail trade	56,288	7.9	60,190	7.7
Transportation and warehousing, excluding Postal Services	20,428	2.9	24,100	3.1
Information	32,210	4.5	30,986	4.0
Finance and insurance	47,345	6.6	54,333	7.0
Real estate and rental and leasing	121,671	17.0	123,451	15.9
Professional and technical services	47,931	6.7	55,693	7.2
Management of companies and enterprises	8,757	1.2	12,112	1.6
Administrative and waste services	30,357	4.2	29,121	3.7
Educational services	5,399	0.8	7,819	1.0
Health care and social assistance	51,638	7.2	67,456	8.7
Arts, entertainment and recreation	11,736	1.6	14,845	1.9
Accommodation and food services	29,552	4.1	35,588	4.6
Other services, except government	19,457	2.7	21,571	2.8
Government	<u>80,344</u>	11.2	<u>95,706</u>	12.3
Total ²	\$714,630		\$777,163	

Source: U.S. Department of Commerce, Bureau of Economic Analysis (August, 2013).

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 89.3 million people visited the State in 2012, a 2.3% increase over the final 2011 total. Leisure and hospitality services accounted for 13.5% of the State's non-farm employment in 2012. According to the Florida Department of Business and Professional Regulation, as of August 1, 2012, 47,511 food service establishments were licensed with seating capacity of 3,720,745, and 37,175 lodging establishments were licensed with 1,551,225 total units. According to the Florida Department of Environmental Protection, visitors to the State's public parks and recreation areas totaled 25.5 million for Fiscal Year 2012-13, a 2% increase from the prior year. In 2012, accommodation and food services contributed 4.6% of the State's GDP, and arts, entertainment and recreation contributed 1.9%.

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 2011 four Florida airports were among the top 50 in the U.S. based on passenger boardings and three were among the top 50 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 2012, agriculture, forestry and fishing constituted only about 0.8% of GDP. According to the U.S. Department of Agriculture, in 2011 Florida's agricultural cash receipts were 16th for all crops, with the State ranking 1st in oranges, and 2nd in greenhouses, tomatoes and strawberries.

Construction activity, which constituted approximately 3.9% of Florida's 2012 GDP, is another factor to consider in analyzing the State's economy. The following table shows housing starts and construction values from 2002 through 2012.

Florida Housing Starts and Construction Value: 2002-2012¹

<u>Year</u>	<u>Housing Starts (thous)</u>		<u>Construction Value (millions of current dollars)</u>			
	<u>Single Family</u>	<u>Multi-Family</u>	<u>Single Family</u>	<u>Multi-Family</u>	<u>Non-Residential</u>	<u>Total</u>
2002	122.5	64.0	\$20,313.5	\$5,763.6	\$16,498.1	\$42,575.1
2003	146.7	68.8	25,615.4	7,052.4	17,111.1	49,778.8
2004	172.4	81.6	31,956.0	9,404.6	17,450.3	58,810.9
2005	193.1	93.6	39,349.7	13,249.4	19,111.5	71,710.6
2006	132.6	84.1	30,251.0	11,472.8	22,002.9	63,726.6
2007	63.8	53.9	15,484.4	6,406.7	28,431.6	50,322.8
2008	34.5	25.3	9,110.1	3,015.8	20,268.5	32,394.4
2009	24.6	7.7	6,513.0	943.7	17,590.7	25,047.4
2010	29.0	10.0	7,708.0	1,105.4	15,854.2	24,667.6
2011	29.3	12.1	8,180.6	1,449.6	13,083.4	22,713.6
2012	39.8	18.8	11,705.3	2,518.6	13,251.7	27,475.6

Source: Office of Economic and Demographic Research, The Florida Legislature (January, 2013).

¹ Data is subject to revision on a monthly basis for up to five years.

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Employment

The following tables provide employment information for Florida and the U.S. As shown below, total employment in Florida increased from 8.4 million in 2011-12 to 8.7 million in 2012-13 and the unemployment rate decreased from 9.4% in 2011-12 to 7.9% in 2012-13. For the first time in five years, Florida's unemployment rate was similar to the nation's unemployment rate.

The total number of non-agricultural jobs in Florida has decreased over the past five years by 7.6% from 8.0 million in 2007 to 7.4 million in 2012. However, total non-agricultural jobs in Florida have increased slightly from 7.3 million in 2011 to 7.4 million in 2012. At the same time, total US non-agricultural jobs have decreased by 2.8% from 137.6 million in 2007 to 133.7 million in 2012.

Unemployment Rate, Florida vs. U.S. Fiscal Years 2003-2013

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.
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	9,183.0	154,600.0	8,420.6	142,800.0	8.3	7.6
2009-10	9,159.4	153,900.0	8,143.6	138,900.0	11.1	9.7
2010-11	9,195.1	153,600.0	8,186.6	139,400.0	11.0	9.3
2011-12	9,319.9	154,300.0	8,441.0	141,200.0	9.4	8.5
2012-13	9,409.8	155,300.0	8,670.6	143,200.0	7.9	7.8

Source: Office of Economic and Demographic Research, The Florida Legislature (August, 2013).

Composition of Nonagricultural Employment Florida and the Nation 2007 and 2012¹ (thousands)

	2007				2012			
	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	6.7	0.1	724.0	0.5	5.6	0.1	851.0	0.6
Construction	622.9	7.8	7,630.0	5.5	341.5	4.6	5,641.0	4.2
Manufacturing	399.0	5.0	13,879.0	10.1	316.8	4.3	11,919.0	8.9
Transportation & Warehousing	229.8	2.9	4,540.9	3.3	217.8	2.9	4,414.5	3.3
Utilities	23.7	0.3	553.4	0.4	22.6	0.3	554.1	0.4
Wholesale Trade	361.2	4.5	6,015.2	4.4	317.7	4.3	5,672.7	4.2
Retail Trade	1,028.5	12.8	15,520.0	11.3	979.0	13.2	14,874.9	11.1
Information	162.7	2.0	3,032.0	2.2	133.4	1.8	2,678.0	2.0
Financial Activities	551.2	6.9	8,348.0	6.1	497.5	6.7	7,786.0	5.8
Professional & Business Services	1,156.2	14.4	17,942.0	13.0	1,067.5	14.4	17,930.0	13.4
Education & Health Services	1,016.5	12.7	18,322.0	13.3	1,109.9	15.0	20,319.0	15.2
Leisure & Hospitality Services	983.5	12.3	13,427.0	9.8	997.7	13.5	13,746.0	10.3
Other Services	345.6	4.3	5,494.0	4.0	314.4	4.2	5,437.0	4.1
Government	1,122.6	14.0	22,218.0	16.1	1,078.6	14.6	21,917.0	16.4
Total Non-farm	8,009.8		137,645.0		7,400.1		133,739.0	

Source: US Department of Labor, Bureau of Labor Statistics (April, 2013).

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 2003 to 2012, Florida's total personal income grew by 46.7% and per capita income increased approximately 29.1%. For the nation and the Southeast, total personal income increased by 43.0% and 45.9%, while per capita income grew 32.2% and 31.3%, respectively, over the same time period. With the exception of 2009, personal income and per capita income have increased annually for the past ten years.

Florida per capita income remains above the Southeast region, but below the nation. The following table shows total and per capita personal income for the U.S., the Southeast, and Florida for the past ten calendar years.

The table on the following page shows Florida personal income and earnings by major source for calendar years 2007 and 2012. Total Income in Florida has increased approximately 8.3% over the five year time period. Increases and decreases in income varied across industries, with health care realizing the largest increase and construction seeing the biggest decrease.

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

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
2003	9,369,072	3.5	2,103,566	3.9	531,218	4.5	32,295	2.6	29,232	2.7	31,241	2.6
2004	9,928,790	6.0	2,249,054	6.9	582,766	9.7	33,909	5.0	30,801	5.4	33,463	7.1
2005	10,476,669	5.5	2,403,753	6.9	633,193	8.7	35,452	4.6	32,418	5.2	35,489	6.1
2006	11,256,516	7.4	2,580,723	7.4	690,268	9.0	37,725	6.4	34,379	6.0	37,996	7.1
2007	11,900,562	5.7	2,728,855	5.7	721,052	4.5	39,506	4.7	35,848	4.3	39,256	3.3
2008	12,451,660	4.6	2,843,864	4.2	740,676	2.7	40,947	3.6	36,906	3.0	39,978	1.8
2009	11,852,715	(4.8)	2,722,901	(4.3)	687,337	(7.2)	38,637	(5.6)	34,992	(5.2)	36,849	(7.8)
2010	12,308,496	3.8	2,831,622	4.0	722,368	5.1	39,791	3.0	36,047	3.0	38,345	4.1
2011	12,949,905	5.2	2,968,900	4.8	755,358	4.6	41,560	4.4	37,473	4.0	39,636	3.4
2012	13,401,869	3.5	3,068,647	3.4	779,339	3.2	42,693	2.7	38,382	2.4	40,344	1.8

Source: U.S. Department of Commerce, Bureau of Economic Analysis (May, 2013).

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Florida Personal Income and Earnings by Major Source: 2007 vs. 2012
(thousands of current dollars)

	<u>2007</u>	<u>% Total</u>	<u>2012</u>	<u>% Total</u>
Earnings:				
Wages and Salaries:				
Farm	\$2,269,966	0.3%	\$2,403,509	0.3%
Non Farm	460,072,789	54.9%	470,573,499	51.8%
Private:				
Forestry, fishing and other	1,501,847	0.2%	1,849,705	0.2%
Mining	577,817	0.1%	463,089	0.1%
Utilities	2,459,456	0.3%	3,121,124	0.3%
Construction	38,623,999	4.6%	22,992,208	2.5%
Manufacturing	25,258,850	3.0%	23,726,165	2.6%
Wholesale Trade	26,913,463	3.2%	27,338,712	3.0%
Retail Trade	36,537,449	4.4%	38,198,460	4.2%
Transportation & Warehousing	14,276,579	1.7%	15,310,095	1.7%
Information	13,668,574	1.6%	12,919,634	1.4%
Finance and insurance	31,650,742	3.8%	33,365,062	3.7%
Real estate and rental and leasing	11,370,667	1.4%	11,805,709	1.3%
Professional and technical services	40,139,378	4.8%	44,148,406	4.9%
Management of companies and enterprises	8,792,932	1.0%	10,183,725	1.1%
Administrative and waste services	28,154,175	3.4%	25,139,258	2.8%
Educational services	5,536,778	0.7%	6,995,619	0.8%
Health care and social assistance	50,628,652	6.0%	61,451,445	6.8%
Arts, entertainment and recreation	9,373,145	1.1%	10,488,824	1.2%
Accommodation and food services	20,459,233	2.4%	21,825,015	2.4%
Other services, except public administration	<u>19,556,840</u>	2.3%	<u>19,964,457</u>	2.2%
Total Private	385,480,576	46.0%	391,286,712	43.1%
Government & government enterprises	74,592,213	8.9%	79,286,787	8.7%
Total Wages & Salaries	462,342,755	55.1%	472,977,008	52.1%
Other Income:				
plus: Dividends, Interest & Rent	196,530,904	23.4%	194,378,645	21.4%
plus: Personal current transfer receipts	111,239,165	13.3%	157,616,072	17.4%
plus: Adjustment for residence	1,882,711	0.2%	2,096,813	0.2%
Less: Contributions for social insurance	<u>(50,944,017)</u>	(6.1)%	<u>(47,729,723)</u>	(5.3)%
Total Other Income:	258,708,763	30.8%	306,361,807	33.7%
Total Personal Income	721,051,518	86.0%	779,338,815	85.8%
Other Earnings:				
Supplements to wages and salaries	73,095,619	8.7%	80,006,584	8.8%
Proprietors' income:	<u>44,561,460</u>	5.3%	<u>48,755,773</u>	5.4%
Total Earnings:	117,657,079	14.0%	128,762,357	14.2%
TOTAL INCOME	\$838,708,597	100.0%	\$908,101,172	100.0%

Source: US Department of Commerce, Bureau of Economic Analysis (April, 2013).

International Trade

Florida's location lends itself to international trade and travel. Florida was the 6th largest exporter in the nation in 2012, accounting for 4.3% of total U.S. exports of goods. The State's international merchandise trade (imports and exports) totaled \$162.2 billion in 2012, an increase of 8.7% over 2011. The State's merchandise exports increased by 4.2% between 2011 and 2012, and imports increased by 15.1%. During the same period, the nation's exports increased by 18.9% and imports increased by 3.1%.

The State's top five exports for 2012 were precious metals, aircraft, vehicles, telecommunications equipment, and computers. The top imports were oil, gold, vehicles, refined copper and alloys, and electronics. Florida's top trading partners for 2012 were Brazil, Colombia, China, Costa Rica and Switzerland.

(Source: Enterprise Florida, March 2013)

Florida's International Trade: 2002-2012
(millions of U.S. dollars)

Year	Exports	% Change	Imports	% Change
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
2011	86,753	18.7	62,413	17.4
2012	90,360	4.2	71,833	15.1

Source: Enterprise Florida (March, 2013).

Primary Sources of Sales Tax

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 Years 2008 and 2013.

Florida Taxable Sales and Sales Tax Liability by Category
Fiscal Years ended June 30, 2003-2013
(millions of current dollars)

Fiscal Year	Consumer Non-durables				Consumer Durables				Building Investment		Business Investment	
	Recreation/Tourism		Other		Autos & Accessories		Other		Sales	Taxes	Sales	Taxes
	Sales	Taxes	Sales	Taxes	Sales	Taxes	Sales	Taxes	Sales	Taxes	Sales	Taxes
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
2011	63,818	3,816.1	94,741	5,724.3	45,889	2,744.0	19,271	1,152.3	15,129	904.6	56,836	3,329.9
2012	68,168	4,076.2	98,880	5,974.3	48,803	2,918.3	20,431	1,221.7	15,845	947.4	58,543	3,429.8
2013	72,029	4,306.9	102,711	6,205.6	53,922	3,224.5	21,711	1,298.1	17,893	1,069.8	61,397	3,597.1

Source: Office of Economic and Demographic Research (August, 2013).

State Sales Tax Collections by Top 25 Business Types
Fiscal Years Ended June 30, 2008 vs. 2013¹

<u>Type of Business</u>	<u>2008</u>	<u>2013</u>
General Miscellaneous Merchandise Stores	\$2,725,659,882	\$2,782,881,348
Automotive Dealers	2,690,999,365	2,661,441,736
Restaurants, Lunchrooms, Catering Services	1,707,873,700	1,982,202,712
Leased or Rental of Commercial Real Property	1,372,528,191	1,364,982,712
Hotels/Motels Accommodations & Other Lodging Places	981,397,580	1,102,348,927
Food & Beverage Stores	903,548,354	990,474,973
Apparel & Accessory Stores	628,123,797	843,859,948
Lumber and Other Building Materials Dealers	865,273,459	781,708,283
Admissions, Amusement & Recreation Services	545,399,887	704,480,185
Wholesale Dealers	573,877,297	584,108,079
Radio, Television, Consumer Electronics, Computers, Music Stores	580,145,688	554,637,139
Utilities, Electric, Gas, Water, Sewer	511,543,973	475,816,445
Manufacturing	589,549,899	463,289,008
Home Furniture, Furnishings & Equipment	417,848,928	415,963,582
Automotive Accessories & Parts	227,066,712	265,426,737
Rental of Tangible Personal Property	382,749,443	257,002,768
Automobile Repair & Services	255,419,400	253,318,622
Communications	135,542,313	173,039,487
Taxable Services (per Chapter 212, F.S.)	164,773,464	156,884,335
Paint, Wallpaper & Hardware Dealers	174,110,471	150,247,571
Building Contractors	106,334,640	144,482,458
Drinking Places (Alcoholic beverages served on premises)	159,547,598	144,039,133
Store & Office Equipment, Office Supplies	179,749,465	136,909,938
Gifts, Cards, Novelty, Hobby, Crafts & Toy Stores	127,513,413	124,394,715
Shoe Stores	90,259,103	120,019,638

Source: Florida Department of Revenue, Office of Tax Research (August, 2013).

¹ Arranged in descending order of collection amounts for Fiscal Year ended June 30, 2013. In that Fiscal Year, "Miscellaneous" and unspecified business types accounted for \$162,636,936 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 official economic and demographic data and revenue forecasts for use in planning and budgeting. Each conference develops estimates within its area of expertise by unanimous consent of the conference principals. The four principals of the estimating conference are professional staff of the Governor's Office, Senate, House of Representatives and the Legislature's Office of Economic and Demographic Research. 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. 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), the fall 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. Conferences are also held during legislative session to determine the fiscal impact of proposed tax law changes, and after each legislative session to review changes in tax legislation and to amend official conference recommendations accordingly.

There are currently ten estimating conferences formally identified in statute: Economic, Demographic, Revenue, Education, Criminal Justice, Social Services, Workforce, Early Learning, Self-Insurance, and Florida Retirement System Actuarial Assumptions.

State Revenue Limitation

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.

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 \$50,000 exemption. 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 \$17.3 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

0.25% to the Department of Environmental Protection Water Quality Assurance Trust Fund;

0.25% to the Department of Agriculture and Consumer Services General Inspection Trust Fund;

7.53% to State Housing Trust Fund;

- first \$35 million to State Economic Enhancement and Development Trust Fund;

- 50% of remainder to State Housing Trust Fund;

- 50% of remainder to Local Government Housing Trust Fund;

8.66% to State Housing Trust Fund;

- first \$40 million to State Economic Enhancement and Development Trust Fund;

- 12.5% of remainder to State Housing Trust Fund;

- 87.5% of remainder to Local Government Housing 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;

0.5% / \$9.3 to the State Game 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 lesser 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, 2012, the market value of the endowment was \$776.1 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.

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Five Year History of Trust Fund and General Revenues¹
(millions of dollars)

General Revenue Receipts²	2008-09	2009-10	2010-11	2011-12	2012-13
Sales and Use Tax ³	\$16,531.4	\$16,014.7	\$16,638.3	\$17,422.0	\$18,417.6
Beverage Licenses and Taxes	582.1	585.7	550.8	520.4	481.5
Corporation Income Tax	1,833.4	1,790.0	1,874.5	2,010.8	2,081.0
Documentary Stamp Tax	130.2	143.3	167.2	208.6	381.0
Corporate Filing Fees	239.9	238.1	273.6	275.8	284.1
Tobacco Tax	278.9	205.8	213.4	199.8	202.1
Insurance Premium Tax	614.7	649.2	660.5	662.6	675.9
Indian Gaming	0.0	287.5	139.7	146.3	221.6
Pari-mutuel Fees, Licenses and Taxes	15.1	15.7	12.3	12.5	12.6
Slot Machine Licenses GR	4.9	12.0	18.5	12.0	10.8
Intangible Personal Property Tax	200.0	158.7	162.5	184.6	276.5
Interest Earnings	126.8	118.1	135.6	117.3	107.3
Auto Title and Lien Fees	24.2	182.3	234.9	242.2	58.2
Oil and Gas Severance Tax	4.4	2.2	6.2	9.0	8.0
Solid Mineral Severance Tax	13.6	10.8	12.4	12.3	13.2
Drivers Licenses and Fees	82.8	172.8	200.2	200.5	194.5
Motor Vehicle and Mobile Home Licenses	0.7	311.0	404.2	425.0	437.2
Article V Fees & Transfers	260.2	192.5	167.3	165.4	284.3
Medical and Hospital Fees	138.1	210.2	208.6	235.3	332.1
Motor Vehicle Fees and Charges	0.0	75.1	99.7	101.2	106.2
Fines/Foreitures/Judgements GR	18.6	18.2	19.5	60.9	276.5
Other GR	218.9	231.4	215.2	251.5	256.6
Total GR Collections and Transfers	21,319.1	21,625.7	22,415.3	23,476.0	25,118.7
Plus Service Charges to GR	304.7	435.2	462.5	449.0	486.2
Less Refunds of GR	(598.2)	(537.8)	(326.1)	(306.2)	(290.3)
Net GR Collections and Transfers	21,025.6	21,523.1	22,551.6	23,618.8	25,314.6

Trust Fund Revenues²

Major Transportation Revenues:

Auto Title and Lien Fees	86.9	99.1	103.0	105.7	303.9
Motor Fuel Tax	1,824.3	1,855.4	1,850.7	1,835.5	1,864.7
Motor Vehicle and Mobile Home Licenses	499.9	799.3	812.3	810.5	840.5
Motor Vehicle Fees and Charges	218.5	198.3	205.1	218.3	230.5
Subtotal	2,629.6	2,952.0	2,971.0	2,970.1	3,239.7

Workers Insurance Tax:

Workers' Compensation Tax	17.1	19.5	33.3	47.8	74.3
Workers' Comp. Special Disability	144.1	112.4	37.1	39.4	43.0
Unemployment Compensation Tax	879.5	1,155.9	1,674.2	2,156.2	2,247.8
Subtotal	1,040.6	1,287.8	1,744.6	2,243.4	2,365.1

Conservation and Recreational Lands:

Documentary Stamp Tax	949.9	894.0	944.9	1,004.9	1,199.4
Solid Mineral Severance Tax	45.8	36.7	25.9	11.8	14.3
Oil and Gas Severance Tax	2.1	1.3	2.6	2.6	1.2
Sales and Use Tax	60.7	23.7	23.7	23.3	23.3
Subtotal	1,058.6	955.7	997.2	1,042.6	1,238.3

Education - Tuition , Fees and Charges:

Slot Machine Tax to Education	104.1	136.4	127.7	142.7	142.2
Lottery to Education	1,289.1	1,246.8	1,184.0	1,321.7	1,382.0
Unclaimed Property (State School Trust Fund)	112.0	154.2	157.5	163.6	206.2
Subtotal	1,505.2	1,537.4	1,469.2	1,627.9	1,730.4

Agencies' Administrative Trust Funds:

Beverage Licenses and Taxes	30.7	27.6	31.0	29.8	28.0
Insurance Premium Tax	79.5	50.4	52.2	52.8	52.3
General Inspection Fees and Licenses	61.0	57.4	69.8	59.9	72.9
Citrus Inspection Fees and Licenses	18.2	14.8	14.0	18.4	15.4
D.F.S. and Treas Fees, Licenses & Taxes	130.6	116.7	125.0	130.1	128.1
Citrus Taxes	49.0	41.4	42.4	42.3	38.7
Hunting and Fishing Licenses	47.6	47.4	51.4	50.8	49.2
Pari-mutuel Fees, Licenses and Taxes	14.1	10.9	13.7	14.4	12.5
Professional Fees and Licenses	69.2	61.2	78.0	71.4	88.2
Drivers' Licenses and Fees	51.2	131.5	141.2	145.9	143.1
HSMV, Misc Fees, Licenses & Fines	-	23.5	20.7	32.1	33.2
Slot Machine Licenses and Fees	5.0	4.6	3.3	1.9	7.5
Lottery to Administration	301.7	303.9	322.9	349.7	418.9
Unclaimed Property to Administration	4.4	6.0	6.4	4.0	4.0
Subtotal	862.2	897.5	972.0	1,003.5	1,092.0

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

Other Trust Fund Revenues for State Use:	<u>2008-09</u>	<u>2009-10</u>	<u>2010-11</u>	<u>2011-12</u>	<u>2012-13</u>
Tobacco Tax	157.0	1,129.1	1,096.8	1,033.6	1,017.4
Lottery Prizes	2,415.2	2,403.0	2,515.5	2,792.5	3,223.2
Unclaimed Property Refund to Owners	175.4	191.3	190.3	213.1	255.8
Tobacco Fines/Forfeitures/Judgements Trust	388.9	363.7	366.9	358.9	368.5
Other Fines/Forfeitures/Judgements Trust	272.5	281.7	245.5	235.9	299.2
Article V Fees	1.3	453.5	696.8	697.6	557.5
Interest Earnings	311.5	153.0	177.1	162.1	146.1
Miscellaneous Revenues ⁴	176.6	157.2	259.9	221.5	180.3
Other Trust	<u>2,700.3</u>	<u>3,127.4</u>	<u>3,005.0</u>	<u>3,376.6</u>	<u>3,261.6</u>
Subtotal	6,598.6	8,259.8	8,553.9	9,091.8	9,309.7
Total Trust Fund Revenue for State Use	13,694.8	15,890.3	16,708.0	17,979.3	18,975.0

Revenues Shared With Local Governments

and School Districts

Sales and Use Tax	2,017.4	1,953.6	2,035.0	2,127.9	2,245.5
Beverage Licenses and Taxes	14.1	13.7	14.4	14.5	14.9
Documentary Stamp Tax	42.6	41.2	44.3	48.1	63.0
Insurance Premium Tax	156.3	156.4	154.9	162.6	165.9
Article V Fees	19.4	0.0	0.0	0.0	0.0
Indian Gaming	0.0	0.0	0.8	3.8	4.5
Motor Fuel Tax	387.7	388.4	387.6	358.9	360.1
Oil and Gas Severance Tax	1.3	0.4	1.3	1.9	2.0
Solid Mineral Severance Tax	14.0	11.1	10.6	10.4	8.3
Gross Receipts Tax ³	1,126.2	1,097.7	1,071.6	1,035.3	1,003.0
Mtr Vehicle and Mobile Home Licenses	119.4	124.7	125.5	133.6	138.7
Tobacco Taxes	11.1	8.0	8.2	7.6	7.7
Other Fees, Licenses and Taxes ³	<u>58.5</u>	<u>55.6</u>	<u>57.0</u>	<u>55.2</u>	<u>51.1</u>
Total Local Government	3,968.2	3,850.8	3,911.2	3,959.7	4,064.7

Federal and Local Assistance

Counties and Cities	72.6	73.5	69.2	66.5	63.9
U.S. Government	20,483.0	28,124.9	28,950.5	22,416.8	22,089.1
Other Grants	<u>147.1</u>	<u>232.9</u>	<u>151.2</u>	<u>123.8</u>	<u>131.8</u>
Total Federal and Local Assistance	20,702.7	28,431.4	29,170.8	22,607.0	22,284.8

Summary of Trust Fund and General Revenue⁵	<u>2008-09</u>	<u>2009-10</u>	<u>2010-11</u>	<u>2011-12</u>	<u>2012-13</u>
General Revenue	\$21,025.6	\$21,523.1	\$22,551.6	\$23,618.8	\$25,314.6
Trust Fund	13,694.8	15,890.3	16,708.0	17,979.3	18,975.0
Revenues Shared with Local Governments	3,968.2	3,850.8	3,911.2	3,959.7	4,064.7
Donations & Fed Assistance	<u>20,702.7</u>	<u>28,431.4</u>	<u>29,170.8</u>	<u>22,607.0</u>	<u>22,284.8</u>
Total Direct Revenues	\$59,391.3	\$69,695.6	\$72,341.6	\$68,164.8	\$70,642.1

Source: Florida Office of Economic and Demographic Research, January 2014.

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.

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GENERAL REVENUE FUND
FINANCIAL RETROSPECT AND OUTLOOK STATEMENTS¹

Retrospect Statement
Fiscal Years 2011-12 and 2012-13
(millions of dollars)

	<u>Recurring Funds</u>	<u>Non-Recurring Funds</u>	<u>Total All Funds</u>
FUNDS AVAILABLE 2011-12			
Balance forward from 2010-11	\$0.0	\$746.4	\$746.4
Miscellaneous Adjustments	0.0	0.1	0.1
Revenue collections	23,500.5	122.5	23,623.0
Transfers from trust funds	0.0	387.4	287.4
FCO reversions	0.0	29.1	29.1
Federal funds interest earnings rebate	<u>(0.2)</u>	<u>0.0</u>	<u>(0.2)</u>
Total 2011-12 funds available	\$23,500.3	\$1,285.5	\$24,785.8
EXPENDITURES 2011-12			
Operations	\$11,230.2	\$247.2	\$11,477.4
Aid to local government	11,264.8	34.1	11,298.9
Fixed capital outlay	68.3	44.9	113.2
Fixed capital outlay/aid to local government	0.0	47.5	47.5
Transfer to Budget Stabilization Fund	0.0	214.5	214.5
Transfer to PECO Trust Fund	0.0	120.0	120.0
Miscellaneous Expenditures	<u>0.0</u>	<u>5.0</u>	<u>5.0</u>
Total 2011-12 expenditures	\$22,563.3	\$713.2	\$23,276.5
Ending Balance	\$937.1	\$572.3	\$1,509.3
Budget Stabilization Fund	-	-	<u>\$493.8</u>
Available Reserves	-	-	\$2,003.1
FUNDS AVAILABLE 2012-13			
Balance forward from 2011-12	\$0.0	\$1,509.3	\$1,509.3
Revenue collections	24,688.5	655.1	25,343.6
Transfers from trust funds	0.0	745.7	745.7
Miscellaneous Adjustments	0.0	0.3	0.3
FCO reversions	0.0	5.2	5.2
Federal funds interest earnings rebate	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>
Total 2012-13 funds available	\$24,688.5	\$2,915.6	\$27,604.1
EXPENDITURES 2012-13			
Operations	\$12,174.2	\$281.1	\$11,477.4
Aid to Local Governments	12,091.8	(201.0)	11,298.9
Fixed Capital Outlay	43.9	24.8	113.2
Fixed Capital Outlay/Aid to Local Governments	24.4	52.9	47.5
Transfer to Budget Stabilization Fund	0.0	214.5	214.5
Miscellaneous Expenditures	<u>0.0</u>	<u>5.7</u>	<u>5.7</u>
Total 2012-13 expenditures	\$24,334.3	\$378.0	\$24,712.3
ENDING BALANCE	\$354.2	\$2,537.6	\$2,891.8
Budget Stabilization Fund	-	-	\$708.8
Available Reserves	-	-	\$3,600.6

FINANCIAL OUTLOOK STATEMENT⁵
Fiscal Years 2013-14, 2014-15, 2015-16 and 2016-17
including results of the December 6, 2013 Revenue Estimating Conference (*millions of dollars*)

	<u>Recurring Funds</u>	<u>Non- Funds</u>	<u>Total All Funds</u>
FUNDS AVAILABLE 2013-14			
Balance forward from 2012-13	\$0.0	\$2,891.8	\$2,891.8
Estimated revenues	26,057.4	222.5	26,279.9
FCO reversions	0.0	2.0	2.0
Federal funds interest earnings rebate	(0.2)	0.0	(0.2)
Transfers from trust funds	0.0	384.7	384.7
Total 2013-14 funds available ⁶	<u>\$26,057.2</u>	<u>\$3,501.0</u>	<u>\$29,558.2</u>
EFFECTIVE APPROPRIATIONS 2013-14			
State Operations	\$12,873.5	\$293.7	\$13,167.2
Aid to Local Government	13,269.0	46.4	13,315.4
Fixed Capital Outlay	74.1	57.2	131.3
Fixed Capital Outlay/Aid to Local Government	0.0	76.3	76.3
Reappropriations	0.0	21.2	21.2
Transfer to Budget Stabilization Fund	0.0	214.5	214.5
SB 1852 Reappropriations	0.0	60.5	60.5
SB 1500 GR Transfer to PECO Trust Fund	0.0	344.8	344.8
Transfer to Lawton Chiles Endowment Fund	0.0	45.3	45.3
Total 2013-14 effective appropriations	<u>\$26,216.6</u>	<u>\$1,159.9</u>	<u>\$27,376.5</u>
Ending Balance ^{2,3,4}	(\$159.4)	\$2,341.1	\$2,181.7
FUNDS AVAILABLE 2014-15			
Balance Forward from 2013-14	\$0.0	\$2,181.7	\$2,181.7
Estimated revenues	27,536.9	22.0	27,558.9
Unused appropriations/reversions	0.0	95.0	95.0
FCO reversions	0.0	2.0	2.0
Federal funds interest earnings rebate	(0.2)	0.0	(0.2)
Total 2014-15 funds available ⁶	<u>\$27,536.7</u>	<u>\$2,300.7</u>	<u>\$29,837.4</u>
FUNDS AVAILABLE 2015-16			
Estimated revenues	\$28,979.1	(\$148.5)	\$28,830.6
Unused appropriations/reversions	0.0	95.0	95.0
FCO reversions	0.0	2.0	2.0
Federal funds interest earnings rebate	(1.8)	0.0	(1.8)
Total 2015-16 funds available ⁶	<u>\$28,977.3</u>	<u>(\$51.5)</u>	<u>\$28,925.8</u>
FUNDS AVAILABLE 2016-17			
Estimated Revenues	\$30,230.0	(\$112.7)	\$30,117.3
Unused Appropriations/Reversions	0.0	95.0	95.0
Fixed Capital Outlay Reversions	0.0	2.0	2.0
Federal Funds Interest Earnings Rebate	(4.7)	0.0	(4.7)
Total 2016-17 funds available	<u>\$30,225.3</u>	<u>(\$15.7)</u>	<u>\$30,209.6</u>

Source: Office of Economic and Demographic Research.

¹ Based on December 6, 2013 Revenue Estimating Conference.

² 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 December 6, 2013, \$1.5 million remained unpaid.

³ 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 third repayment was appropriated for 2013-14, and two additional repayments in the amount of \$214.5 million will be required for Fiscal Year 2014-15 and Fiscal Year 2015-16.

⁴ This estimate anticipates that the operation of slot machines will remain limited to eight pari-mutuel facilities in Miami-Dade and Broward counties. If additional slot machine operations or other casino-style gaming are authorized in other locations in Miami-Dade counties or in locations elsewhere in the state, payments to the state under the Gaming Compact Between the Seminole Tribe of Florida and the State of Florida may be reduced.

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.

⁶ The 2012 General Appropriations Act transferred an amount of \$350.0 million from the Lawton Chiles Endowment Fund to the General Revenue Fund. House Bill 5301 requires an amount equal to the amount of Medical-Hospital Fees collected above the January 2012 revenue estimate be transferred back to the Endowment in the following fiscal year until repayment is complete. The estimates of repayment for the term of this outlook statement are zero for Fiscal Year 2014-15 through Fiscal Year 2017-18.

Actual and Projected General Revenues

The actual general revenue collections for Fiscal Year 2012-13 of \$25,314.6 million were \$1,695.8 million, or 7.2%, more than collections for Fiscal Year 2011-12. Actual general revenue collections for Fiscal Year 2012-13, and projections adopted at the December 6, 2013 meeting of the Revenue Estimating Conference for Fiscal Years 2013-14 through 2016-17, are shown in the following table.

	General Revenues									
	<i>Fiscal Years 2012-13 through 2016-17</i>									
	(millions of dollars)									
	<u>Act. 2012-13</u>	<u>Est. 2013-14</u>	<u>Est. 2014-15</u>	<u>Est. 2015-16</u>	<u>Est. 2016-17</u>					
	<u>Actual</u>	<u>Estimate</u>	<u>%</u>	<u>Estimate</u>	<u>%</u>	<u>Estimate</u>	<u>%</u>	<u>Estimate</u>	<u>%</u>	<u>Estimate</u>
Sales Tax- GR	\$18,417.6	\$19,511.4	5.9%	\$20,452.3	4.8%	\$21,598.5	5.6%	\$22,727.3	5.2%	
Beverage Tax & Licenses	481.5	441.7	(8.3)	406.0	(8.1)	357.3	(12.0)	293.4	(17.9)	
Corporate Income Tax	2,081.0	2,128.2	2.3	2,232.4	4.9	2,358.1	5.6	2,378.8	0.9	
Documentary Stamp Tax ²	381.0	644.8	69.2	730.4	13.3	818.3	12.0	878.4	7.3	
Tobacco Tax	202.1	186.2	(7.9)	184.1	(1.1)	182.1	(1.1)	180.2	(1.0)	
Insurance Premium Tax	675.9	692.7	2.5	744.0	7.4	744.7	0.1	780.7	4.8	
Pari-Mutuels Tax	23.4	24.4	4.3	25.8	5.7	25.3	(1.9)	25.0	(1.2)	
Intangibles Tax	276.5	310.0	12.1	337.8	9.0	364.8	8.0	383.3	5.1	
Interest Earnings	107.3	74.7	(30.4)	95.9	28.4	134.2	39.9	226.3	68.6	
Indian Gaming Revenues	221.6	230.2	3.9	246.6	7.1	154.7	(37.3)	113.3	(26.8)	
Highway Safety Licenses & Fees	868.7	876.1	0.9	872.9	(0.4)	864.4	(1.0)	937.4	8.4	
Medical & Hospital Fees	332.1	292.7	(11.9)	296.8	1.4	304.1	2.5	310.6	2.1	
Severance Taxes	21.2	21.3	0.5	18.6	(12.7)	16.2	(12.9)	16.0	(1.2)	
Corporation Filing Fees	284.1	284.4	0.1	285.3	0.3	287.8	0.9	291.1	1.1	
Service Charges	486.2	475.7	(2.2)	487.1	2.4	501.7	3.0	514.2	2.5	
Other Taxes, Licenses & Fees	744.7	395.4	(46.9)	439.9	11.3	413.9	(5.9)	357.1	(13.7)	
Less: Refunds	<u>(290.3)</u>	<u>(310.0)</u>	<u>6.8</u>	<u>(297.0)</u>	<u>(4.2)</u>	<u>(295.5)</u>	<u>(0.5)</u>	<u>(295.8)</u>	<u>0.1</u>	
Net General Revenue: ³	\$25,314.6	\$26,279.9	3.8%	\$27,558.9	4.9%	\$28,830.6	4.6%	\$30,117.3	4.5%	

Source: Office of Economic and Demographic Research, December 6, 2013 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 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 2009-10 through 2013-14

(In Millions of Dollars)

Program	2009-10		2010-11		2011-12		2012-13		2013-14	
	<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	\$ 11,377.2	\$ 10.9	\$ 12,494.9	\$ 6.4	\$ 11,887.1	\$ 29.3	\$ 12,680.1	\$ 9.4	\$ 14,148.0	\$ 9.0
Human Services	5,200.6	-	6,703.4	5.4	7,012.8	1.4	7,665.3	7.9	7,825.8	10.9
Criminal Justice & Corrections	3,487.5	45.5	3,420.9	74.4	3,269.7	74.7	3,065.6	70.5	3,130.5	51.4
Natural Resources, Environment										
Growth Mngmt, & Transportation	168.7	0.5	158.6	24.4	166.3	63.0	174.2	51.4	199.1	119.2
General Government	763.4	4.9	847.7	6.7	612.4	18.4	681.1	29.7	945.5	48.3
Judicial Branch	134.6	-	46.9	-	47.6	-	330.4	1.0	334.9	5.5
Total General Revenue	\$ 21,132.0	\$ 61.8	\$ 23,672.4	\$ 117.3	\$ 22,995.9	\$ 186.8	\$ 24,596.7	\$ 169.9	\$ 26,583.7	\$ 244.4
Trust Funds										
Education	\$ 7,947.1	\$ 1,937.2	\$ 7,666.6	\$ 2,347.3	\$ 6,214.5	\$ 1,769.7	\$ 5,966.7	\$ 1,630.2	\$ 6,126.6	\$ 1,811.8
Human Services	20,824.8	17.9	21,754.7	18.8	22,927.3	49.7	22,220.6	19.0	23,291.8	15.6
Criminal Justice & Corrections	1,221.4	1.0	1,155.6	-	1,134.0	-	1,055.2	-	650.7	-
Natural Resources, Environment										
Growth Mngmt, & Transportation	2,375.0	6,749.3	2,478.7	7,116.9	2,150.4	8,479.3	2,728.4	8,375.8	2,702.1	9,500.3
General Government	3,729.0	222.6	3,554.9	78.8	3,290.4	67.0	3,058.6	100.8	3,404.0	57.9
Judicial Branch	316.7	-	415.1	0.4	411.6	-	114.8	-	103.6	-
Total Trust Funds	\$ 36,414.0	\$ 8,928.0	\$ 37,025.6	\$ 9,562.2	\$ 36,128.2	\$ 10,365.7	\$ 35,144.3	\$ 10,125.8	\$ 36,278.8	\$ 11,385.6
Total All Funds										
Education	\$ 19,324.0	\$ 1,948.0	\$ 20,162.0	\$ 2,354.0	\$ 18,101.6	\$ 1,799.0	\$ 18,646.8	\$ 1,639.6	\$ 20,274.6	\$ 1,820.8
Human Services	26,025.4	17.9	28,458.1	24.2	29,940.1	51.1	29,885.9	26.9	31,117.6	26.6
Criminal Justice & Corrections	4,708.9	46.5	4,576.5	74.4	4,403.7	74.7	4,120.8	70.5	3,781.1	51.4
Natural Resources, Environment										
Growth Mngmt, & Transportation	2,543.7	6,749.8	2,637.3	7,141.3	2,316.7	8,542.3	2,902.6	8,427.2	2,901.2	9,619.5
General Government	4,492.4	227.5	4,402.6	85.5	3,902.8	85.4	3,739.7	130.5	4,349.6	106.2
Judicial Branch	451.3	-	462.0	0.4	459.2	-	445.2	1.0	438.5	5.5
Total All Funds	\$ 57,545.7	\$ 8,989.7	\$ 60,698.5	\$ 9,679.8	\$ 59,124.1	\$ 10,552.5	\$ 59,741.0	\$ 10,295.7	\$ 62,862.6	\$ 11,630.0

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
Direct Debt Outstanding by Type and Program

As of June 30, 2013

(In Millions Dollars)

Debt Type	Amount
Net Tax-Supported Debt	\$20,347.7
Self-Supporting Debt	<u>4,265.7</u>
Total State Debt Outstanding	<u>\$24,613.4</u>
Net Tax-Supported Debt	
Education	
Public Education Capital Outlay	\$10,226.6
Capital Outlay	456.7
Lottery	2,429.1
University System Improvement	178.4
University Mandatory Fee	48.2
Community Colleges	<u>102.7</u>
Total Education	<u>\$13,441.6</u>
Environmental	
Preservation 2000 / Florida Forever	1,359.1
Everglades Restoration Bonds	240.5
Inland Protection	<u>79.2</u>
Total Environmental	<u>1,678.7</u>
Transportation	
Right-of-Way Acquisition and Bridge Construction	1,704.1
State Infrastructure Bank	1.6
P3 Obligations	1,694.3
Florida Ports	<u>258.1</u>
Total Transportation	<u>3,658.1</u>
Appropriated Debt / Other	
Facilities	332.6
Prisons	611.0
Children & Families	109.3
Juvenile Justice	9.1
Lee Moffitt Cancer Center	132.3
Affordable Housing	0.0
Master Lease	6.0
Energy Saving Contracts	55.4
Sports Facility Obligations	<u>313.6</u>
Total Appropriated Debt / Other	<u>1,569.4</u>
Total Net Tax-Supported Debt Outstanding	<u>\$20,347.7</u>
Self-Supporting Debt	
Education	
University Auxiliary Facility Revenue Bonds	\$806.5
Environmental	
Florida Water Pollution Control	467.7
Transportation	
Toll Facilities	2,922.5
State Infrastructure Bank Revenue Bonds	<u>69.0</u>
Total Transportation	<u>2,991.5</u>
Total Self-Supported Debt Outstanding	<u>\$4,265.7</u>

Source: State of Florida, 2013 Debt Affordability Report.

Per Capita Tax Supported Debt

For Fiscal Years Ended June 30

Year	Population¹ (thousands)	Total Principal Outstanding² (millions)	Per Capita
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
2011	18,880	22,945.0	1,215
2012	19,020	21,592.8	1,135
2013	19,214	20,347.7	1,059

¹ Population estimate by the Office of Economic and Demographic Research, Florida Legislature (August, 2013).

² State of Florida 2013 Debt Affordability Report; excludes refunded debt.

State of Florida
Total Debt Outstanding
As of June 30, 2013

Fiscal	Net Tax-Supported Debt Outstanding			Self-Supporting Debt Outstanding			Total Debt Outstanding		
	Year	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest
2014	\$ 1,000,935,660	\$ 900,930,122	\$ 1,901,865,782	\$ 260,224,959	\$ 199,795,688	\$ 460,020,647	\$ 1,261,160,618	\$ 1,100,725,811	\$ 2,361,886,429
2015	1,045,321,122	856,628,726	1,901,949,848	263,158,561	193,240,970	456,399,530	1,308,479,683	1,049,869,696	2,358,349,379
2016	1,127,932,034	816,383,213	1,944,315,247	220,562,188	178,561,428	399,123,617	1,348,494,223	994,944,641	2,343,438,864
2017	1,151,210,830	771,507,386	1,922,718,215	216,122,846	167,342,061	383,464,908	1,367,333,676	938,849,447	2,306,183,123
2018	1,174,326,558	724,273,361	1,898,599,919	221,444,599	157,060,080	378,504,678	1,395,771,156	881,333,441	2,277,104,597
2019	1,149,343,013	675,718,950	1,825,061,963	225,958,461	146,416,744	372,375,204	1,375,301,473	822,135,694	2,197,437,167
2020	1,148,601,957	627,820,510	1,776,422,467	213,286,180	135,646,974	348,933,154	1,361,888,137	763,467,484	2,125,355,621
2021	1,170,921,773	580,086,392	1,751,008,165	218,570,449	125,243,176	343,813,625	1,389,492,221	705,329,568	2,094,821,790
2022	1,188,335,070	531,504,953	1,719,840,023	195,597,000	114,748,209	310,345,209	1,383,932,070	646,253,162	2,030,185,232
2023	1,155,297,626	461,095,618	1,616,393,244	191,125,000	105,401,103	296,526,103	1,346,422,626	566,496,721	1,912,919,347
2024	1,072,258,431	412,682,713	1,484,941,144	193,054,000	96,261,255	289,315,255	1,265,312,431	508,943,968	1,774,256,399
2025	999,379,332	357,091,989	1,356,471,320	197,279,000	87,503,561	284,782,561	1,196,658,332	444,595,550	1,641,253,882
2026	852,985,675	315,264,428	1,168,250,103	180,174,000	78,721,712	258,895,712	1,033,159,675	393,986,141	1,427,145,816
2027	773,323,669	280,188,336	1,053,512,005	179,783,000	70,542,142	250,325,142	953,106,669	350,730,478	1,303,837,147
2028	697,824,790	264,410,307	962,235,096	152,803,000	62,641,389	215,444,389	850,627,790	327,051,696	1,177,679,485
2029	611,677,523	237,881,725	849,559,248	144,613,000	55,640,255	200,253,255	756,290,523	293,521,980	1,049,812,503
2030	561,895,746	216,633,629	778,529,375	132,201,000	48,923,150	181,124,150	694,096,746	265,556,778	959,653,525
2031	503,180,603	199,870,782	703,051,385	121,725,000	42,718,246	164,443,246	624,905,603	242,589,028	867,494,631
2032	493,046,858	185,416,559	678,463,417	113,530,000	36,983,326	150,513,326	606,576,858	222,399,886	828,976,744
2033	446,072,188	171,197,014	617,269,201	113,755,000	31,441,920	145,196,920	559,827,188	202,638,934	762,466,121
2034	394,132,678	153,719,599	547,852,277	106,715,000	25,848,290	132,563,290	500,847,678	179,567,889	680,415,567
2035	363,730,258	145,478,191	509,208,449	91,005,000	20,508,771	111,513,771	454,735,258	165,986,962	620,722,220
2036	340,381,307	138,079,995	478,461,301	91,230,000	15,847,408	107,077,408	431,611,307	153,927,402	585,538,709
2037	305,791,773	129,518,021	435,309,794	59,965,000	11,252,409	71,217,409	365,756,773	140,770,429	506,527,202
2038	210,208,292	121,695,109	331,903,401	50,085,000	8,141,923	58,226,923	260,293,292	129,837,032	390,130,324
2039	145,863,659	110,635,438	256,499,097	52,255,000	5,411,340	57,666,340	198,118,659	116,046,778	314,165,437
2040	95,853,543	119,642,110	215,495,653	33,315,000	2,561,088	35,876,088	129,168,543	122,203,198	251,371,741
2041	52,964,050	94,411,154	147,375,204	17,525,000	1,018,550	18,543,550	70,489,050	95,429,704	165,918,754
2042	41,901,452	97,826,135	139,727,587	8,635,000	267,231	8,902,231	50,536,452	98,093,366	148,629,818
2043	42,182,132	103,793,053	145,975,185	-	-	-	42,182,132	103,793,053	145,975,185
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
	\$ 20,347,746,608	\$ 10,873,983,881	\$ 31,221,730,489	\$ 4,265,697,242	\$ 2,225,690,400	\$ 6,491,387,642	\$ 24,613,443,850	\$ 13,099,674,281	\$ 37,713,118,131

¹ Public/Private Partnership obligations of the Department of Transportation are 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 2013 Debt Affordability Report.

Net Tax-Supported Bonds Issued Since July 1, 2013
(chronological, by date of issuance)

State Board of Education Public Education Capital Outlay Refunding Bonds, 2013 Series B	\$263,525,000
Less: Public Education Capital Outlay Bonds refunded	(297,825,000)
Department of Environmental Protection Everglades Restoration Revenue Bonds, Series 2013A	46,445,000
State Board of Education Public Education Capital Outlay Refunding Bonds, 2013 Series C	297,965,000
Less: Public Education Capital Outlay Bonds refunded	(322,600,000)
Department of Transportation Seaport Investment Program Revenue Bonds, Series 2013	<u>138,145,000</u>
	\$125,655,000

Self Supporting Bonds Issued Since July 1, 2013
(chronological, by date of issuance)

Board of Governors Florida State University Dormitory Revenue Bonds, Series 2013A	\$42,495,000
Department of Transportation Turnpike Revenue Refunding Bonds, Series 2013B	206,035,000
Less: Turnpike Revenue Bonds refunded	(234,550,000)
Board of Governors University of Florida Student Activity Revenue Bonds, Series 2013	41,540,000
Board of Governors Florida International University Parking Facility Revenue Bonds, Series 2013A	48,365,000
Less: Florida International University Parking Bonds	(15,905,000)
Board of Governors University of Florida Dormitory Revenue Bonds, Series 2013A	24,805,000
Less: University of Florida Dormitory Bonds refunded	(5,545,000)
Department of Transportation Turnpike Revenue Bonds, Series 2013C	267,405,000
Less: Turnpike Revenue Bonds refunded	<u>(110,210,000)</u>
	\$264,435,000

STATEMENT OF ASSETS AND LIABILITIES
Administered by State Chief Financial Officer

Source: Annual Report of the State Chief Financial Officer for the Fiscal Year Ended June 30, 2013.

- ¹ Unemployment Trust Fund represents U.C. Benefit Funds invested by the Federal Government and due from U.S. Treasury.
- ² 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 \$39,385,061.23 as of June 30, 2013 with received items in transit of \$104,706,760.37 and disbursed items in transit of (\$64,707,857.73) which nets to \$39,998,902.64. These items have cleared the bank but have not been posted to the State ledger. The Total Bank Accounts figure does not include \$12,794,949.15 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, 2013 is \$8,170,319.38. Of this, \$409,319.38 is in a financial institution account and \$7,761,000.00 is invested in Special Purpose Investment Accounts.
- ⁵ 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.
- ⁶ Includes Purchased Interest in the amount of \$992,818.47.
- ⁷ Included in the Trust Fund Balance is \$5,943,860,831.24 earning interest for the benefit of Trust Funds, Unemployment Trust Fund balance of \$667,942,492.03, and the remaining balance of \$3,729,383,920.96 earning interest for General Revenue.
- ⁸ Represents \$4,121,007.39 interest not yet received to State Accounts and Securities Liability Cost of (\$449,890) which settles July 2013.

Note:

Total Market Value of all Securities held by the Treasury.

June 30, 2013

\$20,300,045,260.88

June 30, 2012

\$18,917,117,540.58

FLORIDA RETIREMENT SYSTEM

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

General. The Florida Retirement System ("FRS") was established by the Florida Legislature effective December 1, 1970 pursuant to Chapter 121, Florida Statutes (the "Act") by consolidating the state's existing State-administered retirement systems into one system. In addition to Chapter 121, the FRS is governed by Article X, Section 14 of the State Constitution, which prohibits increasing benefits without concurrently providing for funding the increase on a sound actuarial basis. The 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 assets of the FRS Defined Benefit Program are held in the FRS Trust Fund and are invested by the State Board of Administration. The FRS Investment Plan was created by the Florida Legislature as a defined contribution plan alternative to the FRS Pension Plan and 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.

In the defined benefit pension plan, a monthly benefit is paid to retired employees in a fixed amount calculated at the time of retirement as determined by a statutory formula. The amount of the monthly benefit is generally based on the years of service credits and salary. The benefit is paid to the retiree for life and, if applicable, a survivor benefit is paid to the designated beneficiary at the death of the retiree.

In the defined contribution plan, the employee's benefit is comprised of the accumulated required contributions and investment earnings on those contributions. Instead of guaranteed benefits based on a formula, the contributions to the member account are guaranteed by the plan and the investment risk is assumed by the employee. Since the employer's obligation to make contributions to the defined contribution plan does not extend beyond the required contribution from current payroll, the employer's funding obligation for a defined contribution plan is fully funded as long as these contributions are made.

FRS membership is compulsory for employees working in regularly established positions for a state agency, county governmental unit, district school board, state university, state 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 choose 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, 2012, there were 1,000 participating employers, and 1,101,286 individual members, as follows:

Retirees & Beneficiaries	333,264 ¹
Terminated Vested Members	104,355
DROP Participants	40,556
Active Vested Members	474,534
Active Non-vested members	148,477
TOTAL	1,101,286

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

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 ("New Members"), as compared to those provided to employees who were members of the FRS prior to July 1, 2011 ("Existing Members"). See "2011 Legislation Affecting FRS Benefits and Funding" below for further details. FRS Pension Plan members receive one month of service credit for each month in which any salary is paid. Existing Members vest after 6 years of service for all membership classes and New Members vest after 8 years of service 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. For Existing Members of the Regular Class, SMSC and the EOC, normal retirement is age 62 and vested, or 30 years of service regardless of age, and age 65 and vested, or 33 years of service regardless of age for New members. For Existing Members of the Special Risk Class and the Special Risk Administrative Support Class, normal retirement is age 55 and vested, or 25 years of service regardless of age, and age 60 and vested, or 30 years of service regardless of age, for New Members. Early retirement may be taken any time after vesting subject to a 5% benefit reduction for each year prior to normal retirement age.

Summary of FRS Pension Plan Benefits

	<u>Vesting Period</u>	<u>Regular Class, SMSC, EOC</u>	<u>Special Risk Classes</u>
Existing Members	6 years	62 years old or 30 years of service	55 years old or 25 years of service
New Members	8 years	65 years old or 33 years of service	60 years old or 30 years of service

Retirement benefits under the FRS Pension Plan are computed using a formula comprised of age and/or years of service at retirement, average final compensation and total percentage based on the accrual value by plan or membership class of service credit.

FRS Pension Plan members who reach normal retirement may participate in the Deferred Retirement Option Program ("DROP"), which allows a member to effectively retire while deferring termination and to continue employment for up to 60 months (or 96 months for some educational personnel under certain conditions). The retirement benefit is calculated as of the beginning of DROP participation and no further service is accrued. During DROP

participation the member's retirement benefits accumulate in the FRS Trust Fund, earning monthly interest at an equivalent annual rate of 6.50 percent for members with an effective DROP begin date before July 1, 2011, and an equivalent annual rate of 1.3 percent for members with an effective DROP begin date on or after July 1, 2011. 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 and the member begins receiving monthly benefits determined when DROP participation began, increased by annual cost of living adjustments.

FRS Investment Plan members invest their contributions in the investment options offered under the plan. FRS Investment Plan members receive one month of service credit for each month in which any salary is paid and vest in their employer contributions after one year of service under the FRS Investment Plan. Members are immediately vested in their employee contributions. If a present value amount is transferred from the FRS Pension Plan to the member's FRS Investment Plan account as the opening balance, the member must meet the FRS Pension Plan vesting requirement for any such transferred funds and associated earnings.

FRS members vest immediately for in-line-of-duty disability benefits or after eight years for non-duty related disability benefits if totally and permanently disabled from all employment. FRS Pension Plan members receive disability monthly benefits until no longer disabled. Periodic reexamination is conducted to verify continued disability retirement eligibility. FRS Investment Plan members may elect to surrender their account balance to the FRS Trust Fund to receive guaranteed monthly benefits under the FRS Pension Plan. Alternatively, 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. FRS Investment Plan members who retain their account balances to fund their disability retirement may leave their funds invested in the plan, structure periodic payments, purchase an annuity, receive a lump-sum payment of their account balance, rollover their monies into another eligible plan qualified under the Internal Revenue Code, or a combination of these options.

The service retirement benefits of FRS Investment Plan members are their account balances at the time they choose to retire as managed by the member throughout retirement. FRS Investment Plan members may leave their funds invested in the plan, structure periodic benefit payments under their investment contracts, purchase an annuity, rollover their funds to a different qualified plan, receive a lump-sum payment representing their account balance in part or in whole, annuitize some or all of their account, or a combination of these options.

Senior Management Service Class members, State University System faculty, Executive Service staff, Administrative and Professional Service staff, and Florida 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.

Funding. From the establishment of the FRS through 1975 both employers and members were required to pay retirement contributions. Members contributions were made on a post-tax basis. From 1975 through June 30, 2011, employers paid all required contributions. Beginning July 1, 2011, both employer and members are required to pay retirement contributions. Members contribute 3% of their salary as retirement contributions, on a pre-tax basis, with the employer automatically deducting the employee contributions from the members'

salary. The contribution rates for the FRS Investment Plan are set by statute and the FRS Pension Plan rates, which are determined annually by the Legislature based on an actuarial valuation and any plan changes adopted during the legislative session. (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 by membership class or sub-class for members of the two primary, integrated FRS plans. The portion of the required FRS Investment Plan contribution rate destined for the member's account is forwarded to the FRS Investment Plan's administrator and the portion for Pension Plan funding is forwarded to the FRS Trust Fund. 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.

2011 Legislation Affecting FRS Benefits and Funding. Chapter 2011-68, Laws of Florida, became law on July 1, 2011 and provides for significant reforms to the FRS, most notably by requiring that FRS members contribute to the FRS and phasing out post-retirement cost-of-living adjustments. The changes also effectively establish a "two-tier" benefit system with less generous benefits for employees who are initially enrolled in the FRS on or after July 1, 2011, as compared to those provided to employees who were initially enrolled in the FRS prior to July 1, 2011. Among other changes, Chapter 2011-68 provides:

Employee Contributions -

- Effective July 1, 2011, most FRS members must contribute 3% of their salary as retirement contributions, on a pre-tax basis, automatically deducted by the employer
- Members participating in the Deferred Retirement Option Program ("DROP") and re-employed retirees, who are not allowed to renew membership in the FRS, are not required to make 3% employee contributions

DROP -

- The annualized DROP interest rate will be 1.3% for members whose DROP participation begins on or after July 1, 2011
- Members with an effective DROP begin date on or before June 30, 2011 will retain an annual interest rate of 6.5%

Cost-of-Living Adjustment (COLA) -

- Members with an effective retirement date (includes DROP participation) before August 1, 2011 will retain their 3% post-retirement COLA
- Members with an effective retirement date or DROP begin 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
- Members initially enrolled on or after July 1, 2011, will not have a post-retirement COLA

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

- Vesting requirement for FRS Pension Plan benefit eligibility is increased from 6 to 8 years of creditable service

- The average final compensation used in calculating retirement benefits is increased from the highest 5 fiscal years to the highest 8 fiscal years of salary
- Increased the “normal retirement date” for unreduced benefit eligibility
- 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
- 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.

Actuarial Valuation of Assets. The Actuarial Value of Assets measures the value of plan assets to determine the funded ratio of the plan as compared to the actuarial liabilities. The actuarial valuation measure reflects a five-year averaging methodology (the "Asset Smoothing Method"), as required by Section 121.031(3)(a), Florida Statutes. Under the Asset Smoothing Method, the expected actuarial value of assets in the Florida Retirement System Trust Fund is determined by crediting the rate of investment return assumed in the valuation (7.75%) to the prior year's actuarial value of assets and net cash flow. Then, 20% of the difference between the actual market value and the expected actuarial value of assets is recognized. The actuarial value of assets are also restricted by a 20% corridor around the market value of assets. The actuarial value of assets used for the valuation is the lesser of the actuarial value described above or 120% of market value but not less than 80% of the market value. The Asset Smoothing Method, which is an allowed method for determining the Actuarial Value of Assets under GASB 25, prevents extreme fluctuations in the actuarial value of assets, the Unfunded Actuarial Accrued Liability (UAAL) and the funded ratio that may otherwise occur as a result of market volatility. Asset smoothing delays recognition of gains and losses and is intended to decrease the volatility of employer contribution rates. The actuarial value of assets is not the market value of Florida Retirement System Trust Fund assets at the time of measurement. As a result, presenting the actuarial value of assets using the Asset Smoothing Method might provide a more or less favorable presentation of the current financial position of a pension plan than would a method that recognizes investment gains and losses annually.

The actuarial valuation of the FRS uses a variety of assumptions to calculate the actuarial accrued liability and the actuarial value of assets. No assurance can be given that any of the assumptions underlying the actuarial valuations will reflect the actual results experienced by the FRS. Variances between the assumptions and actual results may cause an increase or decrease in the actuarial value of assets, the actuarial accrued liability, the UAAL, or the funded ratio.

As of June 30, 2013, 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 years¹
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, 2011 actuarial valuation report for merit scale.

The FRS is required to conduct an actuarial valuation of the plan annually. The valuation process includes a review of the major actuarial assumptions used by the plan actuary, which may be changed during the FRS Actuarial Assumptions Conference that occurs each fall. In addition, the FRS conducts an actuarial experience study every five years. The purpose of the experience study is to compare the actual plan experience with the assumptions for the previous five-year period and determine the adequacy of the non-economic actuarial assumptions including, for example, those relating to mortality, retirement, disability, employment, and turnover of the members and beneficiaries of the FRS. Based upon the results of this review and the recommendation of the actuary, the FRS Actuarial Assumptions Conference may adopt changes to such actuarial assumptions as it deems appropriate for incorporation beginning with the valuation following the experience study period.

Assumed Investment Rate of Return. The actuarial valuation assumes a long-term investment rate of return on the assets in the Florida Retirement System Trust Fund. Due to the volatility of the marketplace, however, the actual rate of return earned by the Florida Retirement System Trust Fund on its assets may be higher or lower than the assumed rate. Changes in the Florida Retirement System Trust Fund's assets as a result of market performance will lead to an increase or decrease in the UAAL and the funded ratio. The five-year Asset Smoothing Method required by Florida law attenuates the impact of sudden market fluctuations. Only a portion of these increases or decreases will be recognized in the current year, with the remaining gain or loss spread over the remaining four years.

Adverse market conditions resulted in negative investment returns on the Florida Retirement System Trust Fund's assets in Fiscal Years 2008 and 2009, contributing to (in conjunction with plan experience) a significant reduction in the Funded Ratio and a corresponding increase in the UAAL. Investment returns in Fiscal Year 2011 were greater than the assumed rate of return, but in Fiscal Year 2012, investment returns fell below the assumed rate, no assurance can be given about future market performance and its impact on the UAAL.

The assumed rate of investment return for Fiscal Year 2012 was 7.75 percent; the actual return calculated on the basis of fair value was 0.29 percent. As of June 30, 2012, the Florida Retirement System Trust Fund was valued at \$122.75 billion (market value), and invested in the classes and approximate percentages as follows:

56.5%	Global Equity
25.5%	Fixed Income
7.6%	Real Estate
5.3%	Private Equity
4.3%	Strategic Investments
0.8%	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^{1,2}
(in thousands where amounts are dollars)

Fiscal Year	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Annuitants	276,252	289,602	304,337	319,689	334,682
Benefits Payments (000 omitted)	\$4,488,653	\$4,878,227	\$5,315,144	\$5,775,405	\$6,233,606
Average Benefits	\$16,248	\$16,845	\$17,465	\$18,066	\$18,625

Source: Florida Department of Management Services, Division of Retirement. Florida Retirement System Annual Reports for Fiscal Years 2008 through 2012.

¹ Figures include disability payments, General Revenue, Institute of Food and Agricultural Sciences Supplemental Program and TRS-SB, but do not include refunds of member contributions.

² Figures exclude FRS Investment Plan and DROP participants.

Funded Status. As shown in the table below, the value of the assets increased from \$127.9 billion in Fiscal Year 2012 to \$131.7 billion in Fiscal Year 2013 on an actuarial basis and increased from \$122.9 billion to \$133.0 billion on a market value basis. The actuarial liabilities increased from \$148.0 billion in Fiscal Year 2012 to \$154.1 billion in Fiscal Year 2013. As of the end of Fiscal Year 2013, the

FRS had an aggregate UAAL of approximately \$22.45 billion on an actuarial basis (using the Asset Smoothing Method) and \$21.10 billion on a market value basis. The respective Funded Ratios for these UAALs are 85.44% and 86.31%. The following tables summarize the current financial condition and the funding progress of the FRS.

Schedule of Funding Progress
Actuarial Value of Assets
(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 ¹ (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
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
July 1, 2011	126,078,053	145,034,475	18,956,422	86.93	25,686,138	73.80
July 1, 2012	127,891,781	148,049,596	20,157,815	86.38	24,491,371	82.30
July 1, 2013	131,680,615	154,125,953	22,445,338	85.44	24,568,642	91.36

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

¹Includes DROP payroll.

Schedule of Funding Progress

Market Value of Assets

(thousands of dollars)

Fiscal Year	Market Value of Assets¹ (a)	Actuarial Accrued Liability (AAL)		Unfunded AAL (UAAL) (b-a)	Funded Ratio (%) (a/b)	Annualized Covered Payroll³ (c)	UAAL as a Percentage of Coverage Payroll (b-a)/c
		Entry Age² (b)	(b-a)				
2004	\$100,933,577	\$95,185,433		(\$5,748,144)	106.04%	\$3,115,581	(24.87)%
2005	108,206,443	103,925,498		(4,280,945)	104.12	24,185,983	(17.70)
2006	116,340,049	110,977,831		(5,362,218)	104.83	25,327,922	(21.17)
2007	134,315,241	118,870,513		(15,444,728)	112.99	26,385,768	(58.53)
2008	124,466,800	124,087,214		(379,586)	100.31	26,891,340	(1.41)
2009	96,503,162	136,375,597		39,872,435	70.76	26,573,196	150.05
2010	107,179,990	139,652,377		32,472,387	76.75	25,765,362	126.03
2011	126,579,720	145,034,475		18,454,755	87.28	25,686,138	71.85
2012	122,921,388	148,049,596		25,128,208	83.03	24,491,371	103.00
2013	133,027,956	154,125,953		21,097,997	86.31	24,568,642	85.87

¹ Source: Florida Department of Management Services, Division of Retirement, Florida Retirement System Annual Reports.

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 Plan for Fiscal Years 2004 through 2013. Annually, the FRS's actuary recommends rates, determined as a percentage of employee payrolls that FRS employers must contribute to fully fund their annual pension obligations, comprised of the FRS's Normal Cost plus any Unfunded Actuarial Liability, which is also called the Annual Required Contribution (the "ARC"). The ARC reflects only the actuarially determined employer contributions. The Florida Legislature adopts rates that all participating FRS employers must pay on behalf of their employees, which may or may not correspond to the actuary's recommended rates.

During Fiscal Years 2004 through 2008, the FRS was in a surplus position. Florida law allows a portion of the surplus to be used to reduce the ARC, therefore lowering the required rates and contributions FRS employers must make on behalf of employees to the FRS Pension Plan. In addition, the Florida Legislature failed to adopt rates sufficient to fully fund the ARC between Fiscal Years 2004 and 2006 but adopted rates during Fiscal Years 2007 through 2010 that more than funded the ARC. Again during Fiscal Years 2011 through 2013, the Florida Legislature did not adopt the actuarially recommended rates. Failure to adopt rates sufficient to fully fund the ARC has contributed to the decline in the funded status of the FRS.

For Fiscal Year 2014, the Florida Legislature adopted the actuarially determined rates, which will result in the ARC being fully funded for that Fiscal Year.

Employer Contributions to the FRS Pension Fund

(thousands of dollars)

Fiscal Year	State Employer Contributions (a)	Non-State Employer Contributions (b)	Total Employer Contributions (a+b)	Annual Required Contributions (ARC) (c)	Percent of ARC Contributed (a+b)/c	Amount of ARC Unfunded c-(a+b)
2004	\$434,308	\$1,464,128	\$1,898,436	\$2,044,540	92.85%	\$146,104
2005	518,488	1,547,700	2,066,187	2,141,862	96.47	75,675
2006	476,437	1,619,089	2,095,527	2,193,928	95.51	98,401
2007	589,123	2,141,612	2,730,735	2,455,255	111.22	(275,480)
2008	560,990	2,232,013	2,793,002	2,612,672	106.90	(180,330)
2009	575,035	2,229,146	2,804,181	2,535,854	110.58	(268,327)
2010	570,420	2,144,136	2,714,556	2,447,374	110.92	(267,182)
2011	648,006	2,377,183	3,025,189	3,680,042 ¹	82.21	654,853
2012 ²	226,098	925,901	1,151,999	1,962,816	58.70	810,817
2013 ³	273,351	1,064,090	1,337,441	2,091,343	63.95	753,902

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

¹ The increase in the ARC between Fiscal Year 2010 and 2011 primarily resulted from elimination of the surplus, which was used to reduce the rates and contributions necessary to fully fund the ARC, and significant market losses, which increased the unfunded liability, and therefore the ARC.

² Beginning in Fiscal Year 2012, both the ARC and the employer contributions which fund the ARC, reflects FRS plan changes that reduced retirement benefits and required employees to contribute 3% of their salaries to the FRS. Required employer contributions decreased by the amount of the employee contributions totaling \$674.2 million.

³ Employee contributions totaled \$694.9 million.

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, 2011, 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, 2011, 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>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Recipients	232,406	244,390	256,452	269,999	283,479	297,303
Contributions	\$326,052	\$334,819	\$341,569	\$332,023	\$334,449	\$322,610
Benefits Paid	\$290,656	\$305,682	\$321,742	\$338,892	\$356,150	\$374,444
Trust Fund Net Assets	\$238,353	\$275,139	\$294,547	\$291,459	\$271,348	\$220,346

Beginning with Fiscal Year 2007, 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, 2012
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% ²
Projected salary increases:	5.85% ^{2,3}
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 inflation at 3.00%.

³ Includes individual salary growth of 4.00 percent plus an age- and service-graded merit scale defined by gender and employment class.

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability		Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Annualized Covered Payroll¹ (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
		(AAL) Entry Age (b)	(UAAL) (b-a)				
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%	
July 1, 2012	\$220,346	\$9,018,467	\$8,798,121	2.44%	\$31,345,990	28.07%	

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 June 30	Annual Required Contribution (ARC)¹	Actual Contribution	Contribution as a Percentage of ARC
2007	\$363,175	\$326,052	90%
2008	\$391,847	\$334,819	85%
2009	\$395,256	\$341,569	86%
2010	\$409,546	\$332,023	81%
2011	\$563,907	\$334,449	59%
2012	\$539,831	\$322,610	60%

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.

Other Postemployment Benefits (OPEB)

The following is based on the February 16, 2012 update to the July 1, 2011 actuarial valuation 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 nineteen participating employers including the primary government of the state, the eleven state universities, and other governmental entities. There was an average enrollment of 176,038 contracts including 36,215 retirees and 139,823 employees and COBRA participants for Fiscal Year 2011-12. 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 June 2012 coverage, for active employees and retirees under the age of 65 for the standard plan were \$549.80 and \$1,243.34 for single and family contracts, respectively.

Actuarially-Determined Annual OPEB Cost and Net OPEB Obligation as of June 30, 2012 (dollars in thousands):

Annual Required Contribution (ARC)	\$330,167
Interest on the Net OPEB Obligation	19,093
Adjustments to the ARC	<u>(16,547)</u>
Annual OPEB Cost	332,713
Employer Contribution	<u>(99,734)</u>
Increase/Decrease in the Net OPEB Obligation	232,979
Net OPEB Obligation - July 1, 2011	<u>477,330</u>
Net OPEB Obligation - June 30, 2012	<u>\$710,309</u>
Percent of annual OPEB cost contributed	29.98%

Funded Status

The funded status of the plan as of June 30, 2012, was as follows (dollars in thousands):

Actuarial valuation date	July 1, 2011
Actuarial accrued liability (AAL)	\$4,903,091
Actuarial value of plan assets	<u>-</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$4,903,091</u>
Actuarial value of assets as a percentage of the AAL	0.00%
Covered payroll	\$4,372,735
UAAL as a percentage of covered payroll	112.13%

Other Postemployment Benefits Schedule of Funding Progress¹ (thousands of dollars)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial			Annualized Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
		Accrued Liability (AAL) (b)	Entry Age (b)	Unfunded AAL (UAAL) (b-a)			
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 ²	--	\$4,545,845		\$4,545,845	0.00%	\$7,574,317	60.02%
July 1, 2011	-	\$6,415,754		\$6,415,754	0.00%	\$7,256,798	88.41%
July 1, 2012 ²	-	\$6,782,210		\$6,782,210	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.

¹ 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 76%.

² Update of the previous year's actuarial valuation. A new valuation was not performed.

Retirees over the age of 65 pay premiums for a Medicare supplement. Monthly premiums, through June 2012 coverage, for the standard Preferred Provider Organization Plan were \$305.82 for a single contract, \$611.64 for two Medicare eligible members, and \$881.80 for a family contract when only one member is Medicare eligible.

The following schedules regarding OPEB cost, net OPEB obligation and OPEB funded status disclose only the State of Florida's share of the OPEB.

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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%
2011	\$313,415	32.80%
2012	\$455,584	27.07%

¹ 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 annual required contribution is approximately 76%.

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, 2011. 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. Initial healthcare cost trend rates used for the Preferred Provider Organization (PPO) Plans are 7.24%, 8.38%, and 8.57% for the first three years followed by 6.50% in the fourth year grading to 5.00% over the course of 70 years. For the Health Maintenance Organization (HMO) Plans, initial healthcare cost trend rates of 5.81%, 3.11% and 8.42% for the first three years followed by 6.50% in the fourth year and grading to 5.00% 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") was paying out more for unemployment benefits than it was collecting in taxes from employers. To address this shortfall and fund its unemployment compensation program, Florida (1) modified its unemployment compensation tax laws; and (2) in 2009, began taking advances from the U.S. Treasury.

Effective January 1, 2012, the amount of wages subject to unemployment taxes (the "taxable wage base") increased from \$7,000 to \$8,500 per employee. In addition, the trigger for the positive adjustment tax rate factor increased 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, a positive adjustment factor is triggered to increase the employer contribution rates that will become effective the following January 1st. Also effective on January 1, 2012, the minimum unemployment tax rate increased from 1.03% to 2.02% (or from \$72.10 to \$171.70 per employee). The maximum unemployment tax rate remained at 5.4%; however, the per employee rate increased from \$378 per employee to \$459 per employee as a result of the \$1,500 increase in the taxable wage base.

2012 Legislation

The 2012 Florida Legislature passed House Bill 7027 ("HB 7027"), which rebranded the State's Unemployment Compensation Law as the Reemployment Assistance Program Law, reduced the taxable wage base from \$8,500 to \$8,000, and modified

the formula used to compute the positive adjustment factor. The changes set forth in HB 7027 were retroactive to January 1, 2012. The changes brought the minimum unemployment tax rate to approximately 1.51%, or \$120.80 per employee. The maximum rate remained at 5.4%, but the maximum taxes rose to \$432 per employee as a result of the \$500 decrease in the taxable wage base.

Federal Advances and Repayment

In August 2009, Florida began taking advances from the federal government to help fund its unemployment compensation program. After a payment of approximately \$1.2 billion to the federal government in May 2012, the balance of federal advances at the end of Fiscal Year 2011-12 was approximately \$677 million. Total payoff of the advances occurred in May 2013.

Fund Balance

In November 2012, it was projected that the State will begin replenishing the Fund during Fiscal Year 2012-13, with an estimated balance of approximately \$559 million in the Fund at June 30, 2013.

Estimates are based on information available at the time of the estimates. Such estimates are subject to revision as additional information becomes available. Also, estimates are subject to risks and uncertainties which may cause results to differ materially from those estimates set forth above. No assurance is given that actual results will not differ materially from the estimates provided above.

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 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” 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.

“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.

* There will not be a Debt Service Reserve Account funded for the 2014A Bonds.

“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.

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.

APPENDIX D

**DIVISION OF BOND FINANCE OF THE
STATE BOARD OF ADMINISTRATION
OF FLORIDA**

**A RESOLUTION
(THE ELEVENTH SUPPLEMENTAL RESOLUTION)
AUTHORIZING THE ISSUANCE AND SALE OF
STATE OF FLORIDA, STATE BOARD OF EDUCATION
LOTTERY REVENUE REFUNDING BONDS,
SERIES (TO BE DETERMINED)**

December 10, 2013

**A RESOLUTION (THE ELEVENTH 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).

“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.

“2011A Bonds” means the \$242,240,000 State of Florida, State Board of Education Lottery Revenue Refunding Bonds, Series 2011A.

“2012A Bonds” means the \$89,835,000 State of Florida, State Board of Education Lottery Revenue Bonds, Series 2012A.

“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 2005A through 2012A Bonds.

“Refunded Bonds” means all or a portion of the State of Florida, State Board of Education Lottery Revenue Bonds, Series 2005A and 2006A 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 Eleventh Supplemental Resolution.

“Resolution” means the Original Resolution, as supplemented and amended through the date of this resolution.

“Eleventh Supplemental Resolution” means this resolution adopted by the Governing Board on December 10, 2013, 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 Eleventh 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 \$240,000,000 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 Eleventh 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 a public sale and to provide notice pursuant to applicable law of such sale, at a time and in such manner as determined by the Director be appropriate to provide adequate notice to potential bidders. 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 determined by the Director. 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 or alternatively, the prior publication and distribution of a Notice of Bond Sale and proposal is ratified. 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.

(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 Eleventh 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 Eleventh 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 Eleventh 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 Eleventh 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 Eleventh Supplemental Resolution to the same extent as if incorporated verbatim in this Eleventh 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 Eleventh 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 Eleventh 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 Eleventh 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 Eleventh 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 Eleventh Supplemental Resolution, the Original Resolution is in all respects ratified and confirmed, and this Eleventh 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 Eleventh 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 \$115,000,000 State of Florida, State Board of Education Lottery Revenue Bonds, Series (to be determined) approved in the Tenth Supplemental Authorizing Resolution, adopted by the Division on August 7, 2012, is hereby rescinded.

SECTION 5.11. EFFECTIVE DATE. This Eleventh Supplemental Resolution shall take effect immediately upon its adoption.

ADOPTED on December 10, 2013.

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DEPARTMENT OF THE LOTTERY

Financial Audit

For the Fiscal Years Ended
June 30, 2013, and 2012



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, 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. Cynthia F. O'Connell 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 Jon M. Bardin, CPA, and the audit was supervised by Allen G. Weiner, 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) 412-2781. For the information technology portion of this audit, the project team leader was Suzanne Varick, CPA, and the supervisor was Tina Greene, CPA, CISA. Please address inquiries regarding the information technology portions of this report to Arthur Hart, CPA, Audit Manager, by e-mail at arthart@aud.state.fl.us or by telephone at (850) 412-2941.

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) 412-2722; 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	1
MANAGEMENT'S DISCUSSION AND ANALYSIS.....	4
BASIC FINANCIAL STATEMENTS	12
Statements of Net Position.....	12
Statements of Revenues, Expenses, and Changes in Net Position	13
Statements of Cash Flows	14
Notes to Financial Statements	15
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>	35
MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING.....	37
SCHEDULE OF FINDINGS	38
EXHIBIT A - MANAGEMENT'S RESPONSE	39

EXECUTIVE SUMMARY

Summary of Report on Financial Statements

Our audit disclosed that the basic financial statements prepared by the Department of the Lottery (Lottery) present fairly, in all material respects, the net position of the Lottery as of June 30, 2013, and 2012, 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 issues 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 be minority business enterprises, as defined in Section 288.703(3), 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(4), Florida Statutes. Our audit disclosed that as of July 1, 2013, retailers comprising one minority type totaled 65 percent of the total number of minority retailers. A similar finding has been 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. 2013-089.

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, 2013, and 2012, 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

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The President of the Senate, the Speaker of the
House of Representatives, and the
Legislative Auditing Committee

INDEPENDENT AUDITOR'S REPORT

Report on the 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, 2013, and 2012, and the related notes to the financial statements which collectively comprise the Lottery's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits 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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above, present fairly, in all material respects, the respective financial position of the Lottery as of June 30, 2013, and 2012, and the respective changes in financial position and cash flows, for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements of the Lottery are intended to present the financial position, the changes in financial position, and cash flows of only that portion of the business-type activities and major funds of the State that is attributable to the transactions of the Lottery. They do not purport to, and do not, present fairly the operations of the State of Florida as of June 30, 2013, and 2012, 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. Our opinion is not modified with respect to this matter.

Other Matter

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the **MANAGEMENT'S DISCUSSION AND ANALYSIS** (pages 4 through 11) 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.

Other Reporting Required by *Governmental Auditing Standards*

In accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards applicable to attestation engagements in *Government Auditing Standards*, we have also issued a report on our examination of the Lottery's internal control over financial reporting, 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***. As noted by that report dated January 24, 2014, we have examined, in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards applicable to attestation engagements in *Government Auditing Standards*, the Lottery's internal control over financial reporting as of June 30, 2013, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and expressed an unqualified opinion. 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* in considering the Lottery's internal control over financial reporting and compliance.

Respectfully submitted,



David W. Martin, CPA
January 24, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS**YEARS ENDED JUNE 30, 2013, AND JUNE 30, 2012**

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, 2013, and 2012. 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 12.

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 Terminal products. The Lottery has been successful in sustaining ticket sales in excess of \$2 billion for the twenty-fourth consecutive fiscal year, with the past three fiscal years exceeding \$4 billion. During the same twenty-four year period the transfer to the Educational Enhancement Trust Fund (EETF) has been a minimum of \$800 million annually, with the fiscal year 2013 transfer exceeding \$1 billion for the eleventh consecutive year.

For the fiscal year ended June 30, 2013:

- Transfers to the EETF increased to approximately \$1.42 billion compared to \$1.32 billion in the prior fiscal year.
- The Lottery's ticket sales increased by 12.65% over the prior fiscal year from approximately \$4.45 billion to \$5.01 billion.
- Approximately 60.41% of total sales were provided by the Scratch-Off product line. This shift in product mix from the higher profit margin Terminal product to the lower profit-margin Scratch-Off product directly impacts the amount transferred to the EETF.
- Prize expense increased \$396.77 million, which represents a 14.34% increase during fiscal year 2013. 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 63.09% 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 2013 expenses for these items increased 12.56% over the prior fiscal year expenses in conjunction with the increase in sales.
- Administrative operating expenses, which include advertising, salaries and benefits, rent, utilities and maintenance, professional fees, depreciation, and other administrative expenses, experienced an increase of \$2.35 million. Administrative operating expenses for fiscal years 2013 and 2012 were \$72.65 million and \$70.30 million, respectively.
- Nonoperating income decreased \$68.49 million over the prior fiscal year. Unrealized depreciation on investments accounted for \$73.97 million of the decrease due to lower market values of investments of similar securities and a reduction in holdings in fiscal year 2013 compared to fiscal year 2012.
- EETF transfers from unclaimed prize money increased \$15.04 million over the prior fiscal year. Unclaimed generation from Terminal games experienced a \$2.72 million decrease over last year. Scratch-Off games increased by \$17.76 million compared to the unclaimed from fiscal year 2012. This increase can be attributed

to the fact that during fiscal year 2013 the Lottery closed 61 games compared to 29 games closed during fiscal year 2012.

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 Statements of Net Position on page 12; the Statements of Revenues, Expenses, and Changes in Net Position on page 13; and the Statements of Cash Flows on page 14 report the Lottery's net position 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 position consists of funds invested in fixed capital assets and restricted assets. The restricted net position consists of the investments being held by the Lottery to fund deferred prize payouts, 20 percent of unclaimed prizes designated for future prize payouts or promotions, and the Multi-State Lottery Association (MUSL) deposit amounts. 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 the future obligations and, therefore, would not realize any gains or losses related to these investments for distribution as net proceeds.

SUMMARY OF NET POSITION

Table 1 presents a comparative summary of the Lottery's Statements of Net Position for fiscal years 2013, 2012, and 2011.

Table 1
Condensed Statements of Net Position
As of June 30, 2013, 2012, and 2011
(In Thousands)

	2013	2012	2011
Assets			
Current Assets	\$ 195,874	\$ 165,785	\$ 189,859
Restricted Assets	1,053,576	1,291,004	1,511,185
Capital Assets, Net of Depreciation	3,215	1,356	1,248
Total Assets	1,252,665	1,458,145	1,702,292
Liabilities			
Current Liabilities	190,498	158,871	184,155
Current Liabilities Payable from Restricted	607,554	735,382	882,439
Noncurrent Liabilities	349,312	427,291	513,728
Total Liabilities	1,147,364	1,321,544	1,580,322
Net Position			
Net Investment in Capital Assets	3,215	1,356	1,248
Restricted Net Position	102,086	135,245	120,722
Total Net Position	\$ 105,301	\$ 136,601	\$ 121,970

Assets

Total assets at the end of fiscal year 2013 decreased \$205.48 million from \$1.46 billion at June 30, 2012, to \$1.25 billion at June 30, 2013. At the end of fiscal year 2012, total assets were \$244.15 million less than the \$1.70 billion at the end of fiscal year 2011.

- Current assets increased from \$165.79 million in 2012 to \$195.87 million in 2013, representing an increase of \$30.09 million. This net increase was primarily due to an increase of \$21.26 million in cash and cash equivalents mostly on deposit with the State Treasurer and an increase of \$9.27 million in accounts receivable. The increase in accounts receivable for fiscal year 2013 was due to timing in the weekly sweeps at June 30, 2013.
- Restricted assets decreased \$237.42 million from \$1.29 billion in 2012 to \$1.05 billion in 2013. 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 shifted toward the cash option instead of the alternative annuity option. There were \$134.95 million in payouts of annuities and \$9.05 million in purchases of new investments in fiscal year 2013 in comparison to fiscal year 2012, which had annuity payouts of \$156.14 million, and purchases of new investments of \$12.74 million. Coupled with the downward trend in the investment portfolio was a decrease in the fair value of the grand prize investments. The amount of invested collateral and time deposits from the lending of those securities also continues to decline. The Lottery held \$494.32 million in invested collateral and time deposits at June 30, 2013, \$603.81 million at June 30, 2012, and \$731.07 million at June 30, 2011.

Liabilities

Total liabilities at June 30, 2013, were \$1.15 billion, which was approximately \$174.18 million lower than the total liabilities of \$1.32 billion at June 30, 2012. The total liabilities at June 30, 2012, were \$258.78 million lower than the June 30, 2011, amount of \$1.58 billion.

- Current liabilities increased from \$158.87 million at June 30, 2012, to \$190.50 million at June 30, 2013. This increase can be attributed to the increase in the amount due to EETF at June 30, 2013. As expected, current liabilities payable from restricted assets decreased \$127.83 million from \$735.38 million at June 30, 2012, to \$607.55 million at June 30, 2013. The amount of grand prizes payable due within one year and the obligations 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 obligations under securities lending decreased by \$109.80 million and the current portion of grand prizes payable decreased by \$17.98 million. At June 30, 2012, the current liabilities payable from restricted assets of \$735.38 million was \$147.06 million less than the balance of \$882.44 million at June 30, 2011.
- Noncurrent liabilities principally consist of the long-term portion of grand prizes payable, which represents the amount to be paid to grand prizewinners in future years. Correlative to current grand prizes payable, the long-term grand prizes payable decreased \$78.86 million from fiscal year-end 2012 to 2013 and decreased \$87.22 million from fiscal year-end 2011 to 2012.

Net Position

Net position decreased \$31.30 million from June 30, 2012, to June 30, 2013. Net position at June 30, 2013, 2012, and 2011 were \$105.30 million, \$136.60 million, and \$121.97 million, respectively. The decrease in net position for the 2013 fiscal year was predominately due to the \$42.82 million decrease in the amount restricted for undistributed appreciation on restricted investments.

The Lottery joined MUSL four years ago in order to participate in the Powerball® with Power Play® game and on May 15, 2013, the Lottery began participating in Mega Millions® with Megaplier®. In accordance with MUSL's rules, the Lottery must contribute to various prize reserve funds maintained by MUSL for unforeseen prize payouts related

to the Powerball with Power Play and Mega Millions with Megaplier games. The Lottery's deposits in reserve funds with MUSL totaled \$19.04 million and \$19.99 million as of June 30, 2013, and June 30, 2012, respectively. Refer to Note 7, Multi-State Lottery Association for further detail.

SUMMARY OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

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 position 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 Position for the fiscal year ended June 30, 2013, and the prior fiscal years ended June 30, 2012, and June 30, 2011, as derived from the Lottery's Statement of Revenues, Expenses, and Changes in Net Position.

Table 2
Condensed Statements of Revenues, Expenses, and Changes in Net Position
As of June 30, 2013, 2012, and 2011
(In Thousands)

	2013	2012	2011
Operating Revenues			
Ticket Sales	\$ 5,012,996	\$ 4,449,896	\$ 4,008,716
Bad Debt Expense	(912)	(1,360)	(1,212)
Terminal & Retailer Fees and Miscellaneous	<u>7,979</u>	<u>7,658</u>	<u>7,436</u>
Total Operating Revenues	<u>5,020,063</u>	<u>4,456,194</u>	<u>4,014,940</u>
Operating Expenses			
Prizes	3,162,889	2,766,119	2,460,219
Retailer Commissions	278,493	247,690	223,390
Vendor Commissions	75,205	66,528	63,260
Other Expenses	<u>72,653</u>	<u>70,304</u>	<u>71,449</u>
Total Operating Expenses	<u>3,589,240</u>	<u>3,150,641</u>	<u>2,818,318</u>
Income from Operations	<u>1,430,823</u>	<u>1,305,553</u>	<u>1,196,622</u>
Nonoperating Revenue, Net of Expenses	<u>(37,816)</u>	<u>30,682</u>	<u>(16,942)</u>
Income Before Operating Transfers	1,393,007	1,336,235	1,179,680
Transfers to EETF from Revenue & Reserves	(1,373,668)	(1,286,001)	(1,147,793)
Transfers to EETF from Unclaimed Prizes	<u>(50,639)</u>	<u>(35,603)</u>	<u>(44,025)</u>
Total Transfers to EETF	<u>(1,424,307)</u>	<u>(1,321,604)</u>	<u>(1,191,818)</u>
Change in Net Position	(31,300)	14,631	(12,138)
Net Position, Beginning of Year	<u>136,601</u>	<u>121,970</u>	<u>134,108</u>
Net Position, End of Year	<u>\$ 105,301</u>	<u>\$ 136,601</u>	<u>\$ 121,970</u>

Sales

For the fiscal year ended June 30, 2013, ticket sales increased by \$563.10 million over the prior fiscal year, which experienced a sales increase of \$441.18 million. The Terminal game sales increased 5.39% from the prior year. To offset the impact of the slow economic recovery on sales, the Lottery not only continued to utilize proven techniques, but also created new promotions for players.

- Powerball with Power Play sales increased by 29.89% over the prior year. On two occasions the jackpot reached over \$580 million setting new records. The largest jackpot in Powerball history reached \$590 million with a single winning ticket, which was won by a Florida resident. Florida sold three Powerball jackpot winning tickets during the fiscal year ended June 30, 2013.
- Mega Millions with Megaplier was introduced into the Terminal line of games on May 15, 2013. Mega Millions contributed \$16.70 million to Terminal sales.
- A 25th Anniversary MILLIONAIRE RAFFLE™ was launched on November 9, 2012, with opportunities to win during weekly drawings or in the grand prize drawing held on December 31, 2012. The RAFFLE generated \$12.88 million in sales.
- Full Service Vending Machines (FSVMs), were distributed during fiscal year 2013. Installation began in September 2012 and was completed in November 2012. There were a total of 500 FSVMs that were installed into our top Instant Ticket Vending Machine (ITVM) locations. The FSVM allows players to purchase both Terminal and Scratch-Off tickets. Total sales for FSVMs reached \$174.40 million.

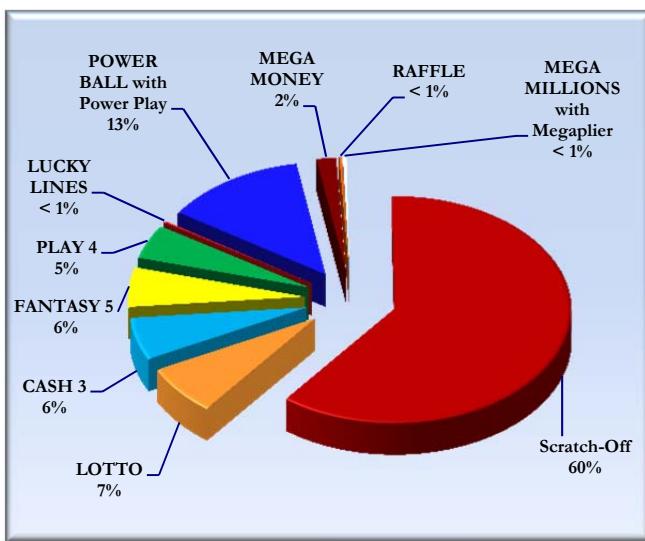
Sales of Scratch-Off tickets increased from \$2.57 billion or 57.69% of total sales in fiscal year 2012 to \$3.03 billion, or 60.41% of total sales in fiscal year 2013.

- Scratch-Off ticket sales experienced an increase of 17.98% over prior year sales with increases in most price points. The largest increases were seen in the \$5 and \$10 price points. The \$5 price point was dominated by the MONOPOLY™ ticket with sales totaling \$86.30 million. The \$10 price point was led by 50X THE CASH, which contributed \$176.21 million in ticket sales.
- In celebration of the Lottery's 25th anniversary, a \$25 price point ticket was launched on September 25, 2012. MILLIONAIRE, a namesake of the first Scratch-Off ticket sold at the Lottery, contributed \$375.25 million in sales.
- ITVMs, which function similar to other vending machines, have continued to have a notable impact on Scratch-Off ticket sales. They have proven successful in increasing the visibility of Scratch-Off ticket products and offering a convenience to players. There were 1,500 ITVMs in use during the year. Total sales from the ITVMs accounted for \$293.58 million of the Scratch-Off sales.

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, 2013, and 2012, was \$912,000 and \$1.36 million, respectively.

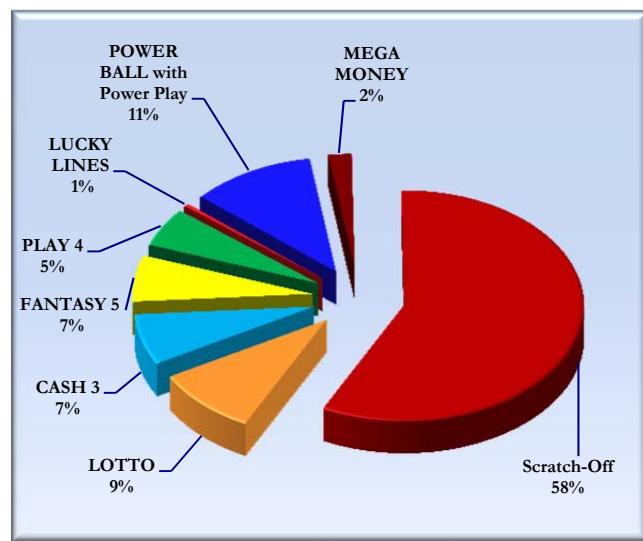
The following charts show sales by product for the various Lottery games during the fiscal years 2013 and 2012:

Sales by Product for Fiscal Year 2012-13*



*Added Mega Millions on May 15, 2013.

Sales by Product for Fiscal Year 2011-12**



**Did not conduct a Raffle.

The following chart and Table 3 show sales by game for the last ten fiscal years:

Department of the Lottery
Historical Lottery Sales by Game
(In Thousands)

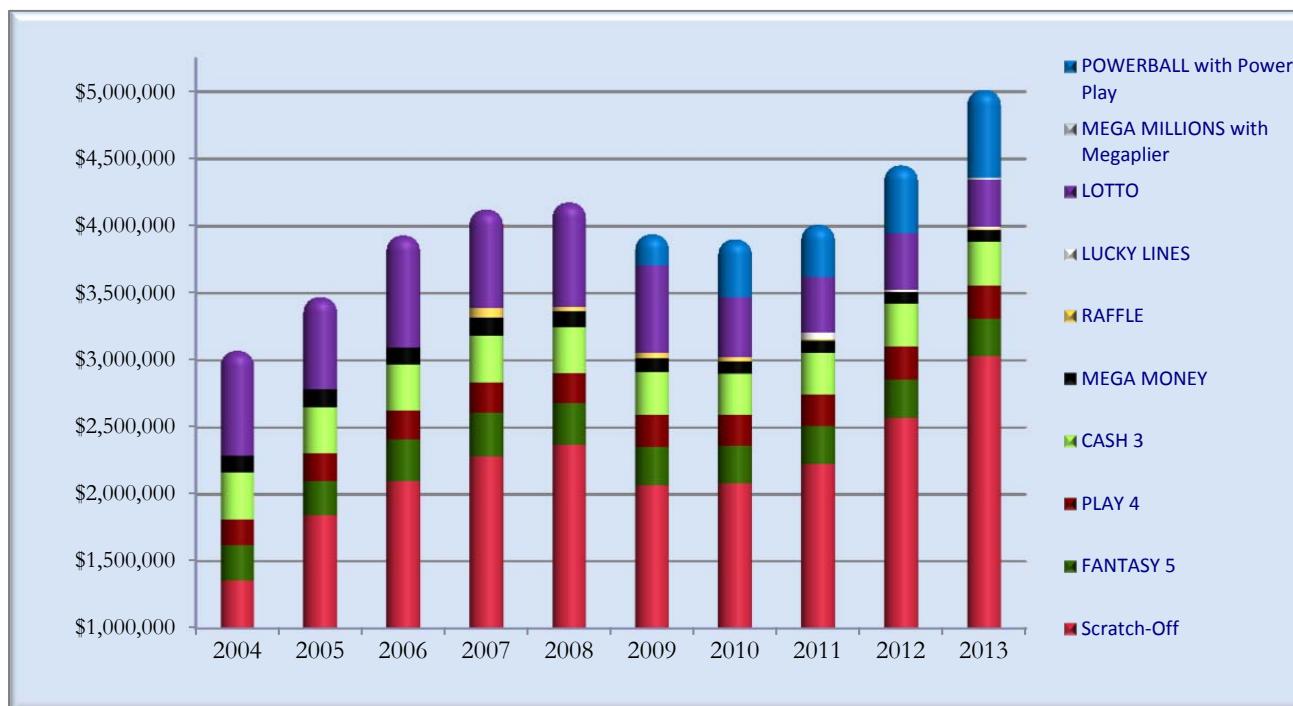


Table 3
Department of the Lottery
Historical Lottery Sales by Game
Last Ten Fiscal Years
(In Thousands)

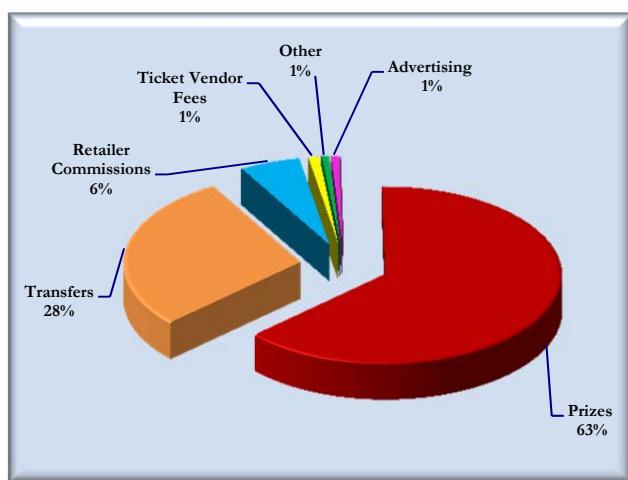
Fiscal Year Ended June 30	MEGA						LUCKY LINES™	with Power Play®	with Megaplier®	Scratch-Off	Combined Sales
	LOTTO™	FANTASY 5®	PLAY 4™	CASH 3™	MEGA MONEY™	RAFFLE™					
2004	\$ 785,415	\$ 259,728	\$ 192,580	\$ 349,227	\$ 125,944					\$1,358,068	\$ 3,070,962
2005	689,820	252,467	206,982	345,598	131,248					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
2011	411,389	282,777	235,692	313,270	88,971	12,603	\$ 45,369	392,969		2,225,676	4,008,716
2012	419,040	290,672	244,711	314,747	92,346		17,692	503,697		2,566,991	4,449,896
2013	352,375	281,492	244,141	324,539	89,500	12,879	8,582	654,263	\$ 16,698	3,028,527	5,012,996

Expenses

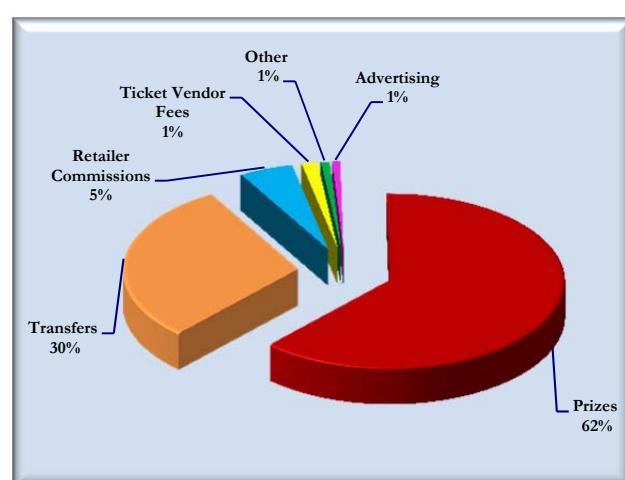
Section 24.121, Florida Statutes, stipulates that funds remaining in the Operating Trust Fund after the transfer to the EETF shall be used for the payment of administrative expenses of the Lottery. These expenses include Terminal game expenses, Scratch-Off ticket expenses, advertising, and other expenses 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 2013 and 2012 fiscal years:

Operating Expenses and Transfers
Fiscal Year 2012-13



Operating Expenses and Transfers
Fiscal Year 2011-12

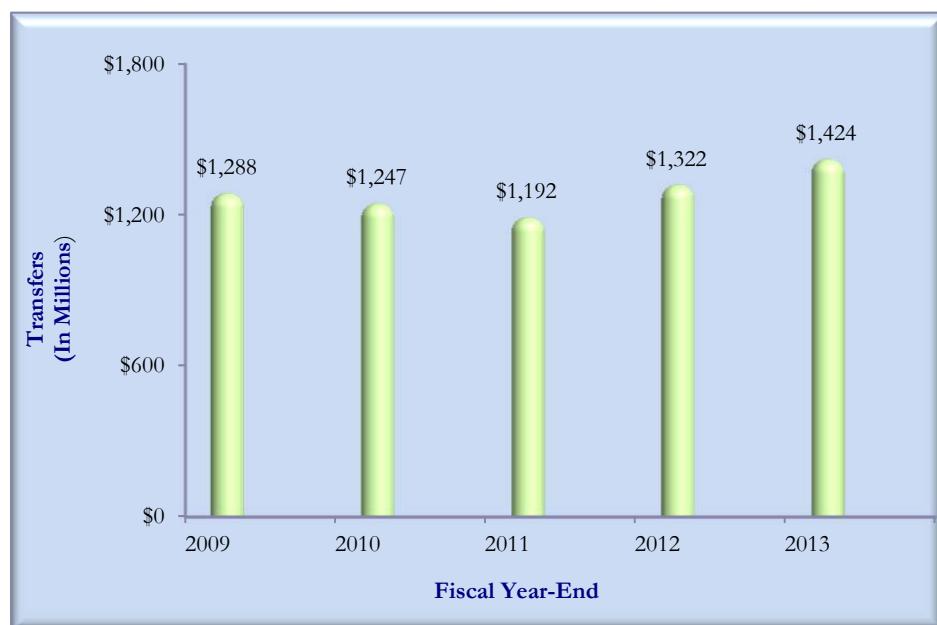


Prizes, commissions, and gaming vendor fees are directly related to ticket sales and fluctuate accordingly. In fiscal year 2013, these expenses changed proportionally; yet as a percentage of total expenses they remained constant. The other expenses, which consist of advertising, salary and benefits, professional fees, rent, maintenance, and depreciation, increased slightly. Fiscal year 2013 and 2012 administrative expenses were \$72.65 million and \$70.30 million, respectively.

Transfers

Since its inception the Lottery has transferred over \$25.44 billion to the EETF. The Lottery's contribution to the EETF for the fiscal year ended June 30, 2013, \$1.42 billion, exceeded the prior fiscal year's contribution of \$1.32 billion, and for the eleventh consecutive year the Lottery contributed over \$1 billion. With the exception of the 2010 and 2011 fiscal years, the Lottery has shown increases in transfers since fiscal year 2001.

The following chart shows the total transfers to the EETF for the past five years:



ECONOMIC FACTORS AND FUTURE IMPACTS

The main economic factors affecting lottery sales are population growth, personal income changes, tourism, and competition for discretionary consumer spending. The Lottery is still challenged with Florida's unemployment rate, although the rate dropped from over 8% at fiscal year-end 2012 to 7.1% at fiscal year-end 2013. Population growth is expected to remain at one percent over the next few years, and consumer confidence is still recovering at a slow rate. In fiscal year 2013, Lottery sales exceeded \$5.01 billion, setting new sales records for Scratch-Off, Terminal, and total game sales. The Lottery's strategies have revolved around enhancing Terminal and Scratch-Off games, increasing retailer penetration in the State, and refreshing the Lottery's brand.

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
STATEMENTS OF NET POSITION
AS OF JUNE 30, 2013, AND JUNE 30, 2012
(IN THOUSANDS)

	June 30, 2013	June 30, 2012
Assets		
Current Assets:		
Cash and cash equivalents	\$146,137	\$124,877
Interest receivable	165	393
Accounts receivable, net	46,562	37,295
Due from other departments	1	4
Prepaid expenses	4	69
Inventories	863	1,143
Security deposits	2,142	2,004
Total Current Assets	<u>195,874</u>	<u>165,785</u>
Noncurrent Assets:		
Restricted Assets		
Cash and cash equivalents	77,063	5,289
Securities lending income receivable	373	655
Deposit with MUSL	19,037	19,995
Investments, grand prize	523,992	661,254
Investments, security lending collateral	433,111	603,811
Total Restricted Assets	<u>1,053,576</u>	<u>1,291,004</u>
Capital assets, net	3,215	1,356
Total Noncurrent Assets	<u>1,056,791</u>	<u>1,292,360</u>
Total Assets	<u><u>\$1,252,665</u></u>	<u><u>\$1,458,145</u></u>
Liabilities		
Current Liabilities:		
Accounts payable and accrued liabilities	\$7,196	\$7,992
Prizes payable	104,279	96,483
Due to Educational Enhancement Trust Fund	76,111	51,604
Deposits payable	2,143	2,007
Compensated absences payable	769	785
Total Current Liabilities	<u>190,498</u>	<u>158,871</u>
Current Liabilities Payable from Restricted Assets:		
Securities lending fees payable	46	98
Obligations under securities lending	494,757	604,556
Grand prizes payable	112,751	130,728
Total Current Liabilities Payable from Restricted Assets	<u>607,554</u>	<u>735,382</u>
Noncurrent Liabilities:		
Grand prizes payable from restricted assets	343,442	422,297
Compensated absences payable	2,908	2,798
Other long-term liabilities	2,962	2,196
Total Noncurrent Liabilities	<u>349,312</u>	<u>427,291</u>
Total Liabilities	<u><u>1,147,364</u></u>	<u><u>1,321,544</u></u>
Net Position		
Invested in capital assets	3,215	1,356
Restricted for undistributed appreciation on restricted investments	67,195	110,012
Restricted for MUSL	19,037	19,995
Restricted for future prizes or special prize promotions	15,854	5,238
Total Net Position	<u>105,301</u>	<u>136,601</u>
Total Liabilities and Net Position	<u><u>\$1,252,665</u></u>	<u><u>\$1,458,145</u></u>

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

DEPARTMENT OF THE LOTTERY
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEARS ENDED JUNE 30, 2013, AND JUNE 30, 2012
(IN THOUSANDS)

	<u>June 30, 2013</u>	<u>June 30, 2012</u>
Operating Revenues:		
Ticket sales	\$5,012,996	\$4,449,896
Bad debt expense	(912)	(1,360)
Terminal fees and miscellaneous	7,773	7,465
Retailer fees	206	193
Total Operating Revenues	<u>5,020,063</u>	<u>4,456,194</u>
Operating Expenses:		
Prizes	3,162,889	2,766,119
Retailer commissions	278,493	247,690
Scratch-Off tickets	44,193	38,906
Terminal games	31,012	27,622
Advertising	37,696	33,540
Personal services	25,730	26,139
Other contractual services	6,801	8,210
Materials and supplies	2,156	1,969
Depreciation	270	446
Total Operating Expenses	<u>3,589,240</u>	<u>3,150,641</u>
Operating Income	<u>1,430,823</u>	<u>1,305,553</u>
Nonoperating Revenues (Expenses):		
Interest	3,984	5,024
Securities lending income	2,543	3,007
Securities lending fees	(1,090)	(824)
Investment management fees	(376)	(296)
Net appreciation (depreciation) in fair value of investments	(13,749)	60,221
Property disposition (loss)	(60)	(4)
Amortization of grand prizes payable	(29,068)	(36,446)
Total Nonoperating Revenues (Expenses), Net	<u>(37,816)</u>	<u>30,682</u>
Income Before Operating Transfers	<u>1,393,007</u>	<u>1,336,235</u>
Transfers to Educational Enhancement Trust Fund:		
Transfers from revenue and reserves	(1,373,668)	(1,286,001)
Transfers from unclaimed prizes	(50,639)	(35,603)
Total Transfers to Educational Enhancement Trust Fund	<u>(1,424,307)</u>	<u>(1,321,604)</u>
Change in Net Position	<u>(31,300)</u>	<u>14,631</u>
Net Position, Beginning of Year	136,601	121,970
Net Position, End of Year	<u>\$105,301</u>	<u>\$136,601</u>

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

DEPARTMENT OF THE LOTTERY
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2013, AND JUNE 30, 2012
(IN THOUSANDS)

	<u>June 30, 2013</u>	<u>June 30, 2012</u>
Operating Activities:		
Ticket sales	\$5,002,817	\$4,432,495
Prizes paid to winners	(3,154,136)	(2,763,100)
Commissions paid and payments to retailers	(278,493)	(247,690)
Paid to vendors for goods and services	(122,478)	(112,140)
Paid to employees	(24,700)	(25,216)
Other operating revenue	7,979	7,658
Net Cash Provided by Operating Activities	<u>1,430,989</u>	<u>1,292,007</u>
Noncapital Financing Activities:		
Payments to Educational Enhancement Trust Fund	(1,399,800)	(1,351,818)
Net Cash Used in Noncapital Financing Activities	<u>(1,399,800)</u>	<u>(1,351,818)</u>
Capital and Related Financing Activities:		
Purchase of capital assets	(2,189)	(558)
Net Cash Used in Capital and Related Financing Activities	<u>(2,189)</u>	<u>(558)</u>
Investing Activities:		
Cash received from maturity of grand prize investments	134,951	156,135
Cash paid to grand prizewinners upon maturity of grand prize investments	(134,951)	(156,135)
Security lending	61,209	(21,200)
Investment income, net of fees	2,825	7,436
Net Cash Provided by Investing Activities	<u>64,034</u>	<u>(13,764)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>93,034</u>	<u>(74,133)</u>
Cash and Cash Equivalents, Beginning of Year	130,166	204,299
Cash and Cash Equivalents, End of Year	<u>\$223,200</u>	<u>\$130,166</u>
Reconciliation of Income from Operations to Net Cash Provided by Operating		
Income from operations	\$1,430,823	\$1,305,553
Adjustments to reconcile income from operations to net cash provided by operating activities:		
Depreciation	270	446
Changes in assets and liabilities		
(Increase) decrease in:		
Accounts receivable	(8,747)	(19,514)
Inventories	280	(150)
Pre-paid expenses	64	(1)
Increase (decrease) in:		
Allowance for uncollectible accounts	301	(36)
Accounts payable and accrued liabilities	(658)	(2,135)
Prizes payable	7,796	7,088
Compensated absences payable	93	32
Postemployment healthcare benefits payable	767	724
Net Cash Provided by Operating Activities	<u>\$1,430,989</u>	<u>\$1,292,007</u>
Noncash Investing, Capital and Financing Activities:		
Increase/(decrease) in fair value of investments	(\$99,563)	(\$38,722)

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

NOTES TO FINANCIAL STATEMENTS

DEPARTMENT OF THE LOTTERY YEARS ENDED JUNE 30, 2013, AND JUNE 30, 2012

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 when the recognition of revenue and expenses and the related assets and liabilities are recognized in the accounts and reported 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 Statements of Net Position.

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 3.

f. *Allowance for Doubtful Accounts*

The allowance for doubtful accounts is based on an analysis of collectability 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 composed of game merchandise, prepaid postage and prepaid tolls.

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 are 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 Statements of Revenues, Expenses, and Changes in Net Position in the period of disposal. See Note 6 for more detailed information on Capital Assets.

j. Net Position

Net Position includes categories for invested in capital assets, restricted for undistributed appreciation on restricted investments, restricted for future prizes or special prize promotions, and restricted for the Multi-State Lottery Association (MUSL). See Note 7 for more information on MUSL.

The net invested in capital assets category represents the investment in capital assets, recorded at cost less accumulated depreciation.

The restricted for undistributed appreciation on restricted investments category represents the undistributed appreciation for all restricted asset accounts.

The restricted for future prizes or special prize promotions category represents the portion of unclaimed prize obligations legally reverted back to the Lottery and restricted for use in the payment of future prize pools or special prize promotions in accordance with Section 24.115(2), Florida Statutes.

The restricted for MUSL category represents the amount placed into reserve for the Florida Lottery by the MUSL in accordance with Rule 53ER12-6, Florida Administrative Code.

k. Revenue Recognition

Lottery games are sold to the public by contracted retailers. Revenue is recognized when Terminal game 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 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 or lower than five percent at any given time. 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 Terminal and Scratch-Off lottery tickets shall be returned to the public in the form of prizes paid by the Lottery or retailers as authorized.

Prize expense for Terminal 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.

Effective 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 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 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 fiscal 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. For named windstorm and flood, the property insurance program self-insures the first \$2 million per occurrence but with an additional annual aggregate retention of \$40 million. Commercial excess insurance is purchased for losses over the self-insured retention up to \$50 million per occurrence for named windstorm and flood losses and \$200 million per occurrence for all other perils. 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 position, 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 is recognized when a Lottery retailer's uncollected revenue is past due. The amount of expense is based on an accounts receivable age analysis. The bad debt expense for the fiscal years ended June 30, 2013, and June 30, 2012, was \$912,000 and \$1,360,000, respectively.

2. ADOPTION OF NEW ACCOUNTING PRONOUNCEMENT

Lottery implemented Government Accounting Standards Board (GASB) Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which became effective for financial statements for periods beginning after December 15, 2011. The primary objective of GASB Statement No. 62 is to directly incorporate the applicable guidance from those FASB and AICPA pronouncements into the state and local government accounting and financial reporting standards, with the provisions modified, as appropriate, to recognize the effects of the governmental environment and the needs of governmental financial statement users without affecting the substance of the applicable guidance. There was no effect on beginning net position as a result of this change for either fiscal year.

Lottery implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which became effective for financial statements for periods beginning after December 15, 2011. GASB Statement No. 63 identifies net position, rather than net assets, as the residual of all other elements presented in a statement of net position. Although Lottery did not have any deferred outflows of resources or deferred inflows of resources to report, the change in format of the financial statements was incorporated into Lottery's 2013 financial statements. Comparative prior year financial statements for 2012 have also been modified to reflect this format change. There was no effect on beginning net position as a result of this change for either fiscal year.

3. 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 \$396,000 at June 30, 2013, and \$449,000 at June 30, 2012, 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 \$61,209,000 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 \$2,372,000 at June 30, 2013, and \$2,796,000 at June 30, 2012, 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 State agencies. Included in the pool are primarily time deposits, U.S. Government securities, Federal agency securities, commercial paper, corporate bonds and notes, and repurchase agreements. The Lottery's share of this investment pool was approximately \$161,595,000 and \$129,716,000 at June 30, 2013, and 2012, 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 Statements of Net Position 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 restricted for undistributed appreciation on restricted investments in net position. 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 accrued on grand prize investments during the year is reflected as an increase in the carrying value of grand prizes payable on the Statements of Net Position, and as a nonoperating revenue (expense) on the Statements of Revenues, Expenses, and Changes in Net Position. Net appreciation (depreciation) in fair value of investments is reflected as a nonoperating revenue (expense) on the Statements of Revenues, Expenses, and Changes in Net Position, 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 security 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 \$494,757,000 of cash collateral for the lending program as of June 30, 2013, and \$604,556,000 as of June 30, 2012. At June 30, 2013, and June 30, 2012, 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 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, 2013, and June 30, 2012, the unrealized shortfall was \$199,000 and \$406,000, respectively.

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 year ended June 30, 2013, and 2012, consisted of (in thousands):

	2013	2012
Securities lending income	\$ 2,543	\$ 3,007
Less broker rebates	(955)	(748)
Less bank fees	(135)	(76)
Net securities lending revenue	\$ 1,453	\$ 2,183

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 A+f as of June 30, 2013.

Listed below are the Standard and Poor's credit ratings for the lending program's invested cash collateral (in thousands):

Investment Type	As of June 30, 2013						Totals
	AAA	AA	A	CCC	A-1	NR	
Certificates of Deposit	\$ -	\$ 13,105	\$ 3,606	\$ -	\$ -	\$ 83,987	\$ 100,698
Commercial Paper	-	-	-	-	81,270	-	\$ 81,270
Domestic Corporate Bonds & Notes	-	49,062	45,932	-	-	-	\$ 94,994
Domestic Non-government Asset-backed Securities	44,496	-	-	174	-	6,094	\$ 50,764
International Corporate Bonds & Notes	-	32,257	5,497	-	-	5,074	\$ 42,828
International Non-government Asset-backed Securities	7,104	-	-	-	-	9,940	\$ 17,044
International Non-government Backed CMOs	-	-	11,628	-	-	-	\$ 11,628
Repurchase Agreements	-	-	-	-	-	33,885	\$ 33,885
Grand Total	\$ 51,600	\$ 94,424	\$ 66,663	\$ 174	\$ 81,270	\$ 138,980	\$ 433,111

Investment Type	Standard and Poor's Credit Rating						Totals
	AAA	AA	A	CCC	A-1	NR	
Certificates of Deposit	\$ -	\$ 10,414	\$ -	\$ -	\$ -	\$ 174,853	\$ 185,267
Commercial Paper	-	-	-	-	65,481	-	65,481
Domestic Corporate Bonds & Notes	6,615	26,863	56,129	-	-	-	89,607
Domestic Non-government Asset-backed Securities	53,946	-	-	169	-	6,100	60,215
Domestic Non-government Backed CMOs	3,907	-	-	-	-	-	3,907
International Corporate Bonds & Notes	-	37,342	2,470	-	-	-	39,812
International Non-government Asset-backed Securities	25,403	-	-	-	-	-	25,403
International Non-government Backed CMOs	-	-	14,156	-	-	-	14,156
Repurchase Agreements	-	-	-	-	-	111,132	111,132
U.S. Government Securities ¹	-	-	-	-	-	8,831	8,831
Grand Total	\$ 89,871	\$ 74,619	\$ 72,755	\$ 169	\$ 65,481	\$ 300,916	\$ 603,811

¹ U.S. Treasury Obligations do not carry individual security ratings, but carried overall ratings of AA⁺ by Standard and Poor's as of June 30, 2012.

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, 2013		As of June 30, 2012	
Time to Maturity	Fair Value	Time to Maturity	Fair Value
< 1 year	\$ 112,508	< 1 year	\$ 134,842
> 1 year to 3 years	149,135	> 1 year to 3 years	195,451
> 3 years to 5 years	65,510	> 3 years to 5 years	105,302
> 5 years to 10 years	79,059	> 5 years to 10 years	87,497
> 10 years to 15 years	69,170	> 10 years to 15 years	77,072
> 15 years to 20 years	37,240	> 15 years to 20 years	47,787
> 20 years to 25 years	7,879	> 20 years to 25 years	8,985
> 25 years	3,491	> 25 years	4,318
Total	\$ 523,992	Total	\$ 661,254

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, 2013		June 30, 2012	
	Fair Value (Thousands)	Weighted Average Maturity (Days)	Fair Value (Thousands)	Weighted Average Maturity (Days)
		(Days)		(Days)
Certificates of Deposit	\$ 100,698	56	\$ 185,267	43
Commercial Paper	81,270	77	65,481	47
Domestic Corporate Bonds & Notes	94,994	47	89,607	42
Domestic Non-government Asset-backed Secu	50,764	16	60,215	23
Domestic Non-government Backed CMOs	-		3,907	6
International Corporate Bonds & Notes	42,828	46	39,812	55
International Non-government Asset-backed S	17,044	15	25,403	16
International Non-government Backed CMOs	11,628	22	14,156	20
Repurchase Agreements	33,885	1	111,132	2
U.S. Government Securities	-		8,831	107
Total Fair Value	\$ 433,111		\$ 603,811	
Portfolio weighted average maturity		45		33

The effective duration of the State Treasury Investment Pool at June 30, 2013, and June 30, 2012, was approximately 2.65 years and 2.38 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.

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, 2013, and June 30, 2012, was \$433,111,000 and \$603,811,000 respectively.

At June 30, 2013, and June 30, 2012, 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, 2013, and June 30, 2012.

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, 2013 Carrying Value	June 30, 2012 Carrying Value
Commercial Paper	\$ 81,270	\$ 65,481
Certificates of Deposit	100,698	185,267
Repurchase Agreements	33,885	111,132
U.S. Government Obligations & Federally Guaranteed Obligations	38,871	80,223
Domestic Corporate Bonds & Notes	94,994	89,607
Domestic Non-government Asset-backed Securities	50,764	60,215
International Corporate Bonds & Notes	42,828	39,812
International Non-government Asset-backed Securities	17,044	25,403
Domestic Non-government Backed CMOs	-	3,907
International Non-government Backed CMOs	11,628	14,156
Investments Held by Others Under Securities Lending Agreements - U.S. Obligations	485,121	589,862
Pooled Investments with State Treasury	161,595	129,717
Total Investments	\$ 1,118,698	\$ 1,394,782

The following schedules reconcile cash and investments to the Statement of Net Assets at June 30 (in thousands):

	June 30, 2013			
	Investments	Cash at Financial Institutions	Cash at State Treasury	Total
Cash and cash equivalents	\$ 145,741	\$ 361	\$ 35	\$ 146,137
Restricted cash and cash equivalents	15,854	61,209	-	77,063
Investments, grand prize	523,992	-	-	523,992
Investments, security lending collateral	433,111	-	-	433,111
Total	<u>\$ 1,118,698</u>	<u>\$ 61,570</u>	<u>\$ 35</u>	<u>\$ 1,180,303</u>

	June 30, 2012			
	Investments	Cash at Financial Institutions	Cash at State Treasury	Total
Cash and cash equivalents	\$ 124,479	\$ 347	\$ 51	\$ 124,877
Restricted cash and cash equivalents	5,238	51	-	5,289
Investments, grand prize	661,254	-	-	661,254
Investments, security lending collateral	603,811	-	-	603,811
Total	<u>\$ 1,394,782</u>	<u>\$ 398</u>	<u>\$ 51</u>	<u>\$ 1,395,231</u>

4. ACCOUNTS RECEIVABLE

Accounts receivable as of June 30 consisted of (in thousands):

	2013	2012
Ticket sales receivable	\$ 49,138	\$ 39,594
Other receivables	52	29
Total receivables	49,190	39,623
Less allowance for doubtful accounts	(2,628)	(2,328)
Accounts receivable, net	<u>\$ 46,562</u>	<u>\$ 37,295</u>

5. 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 Position, in assets as security deposits, and in liabilities, as deposits payable. The checks appear on the Statement of Net Position, in assets as cash, and in liabilities, as deposits payable.

6. CAPITAL ASSETS

Capital assets at June 30 consisted of (in thousands):

	2011-12			2012-13			Balance 30-Jun-13
	Balance 30-Jun-11	Increase	Decrease	Balance 30-Jun-12	Increase	Decrease	
Data processing equipment	\$ 3,813	\$ 3	\$ (123)	\$ 3,693	\$ 5	\$ (291)	\$ 3,407
Office equipment and fixtures	5,707	249	(157)	5,799	412	(372)	5,839
Vehicles and other equipment	2,982	250	(31)	3,201	413	(73)	3,541
Software and other intangibles	703	60	-	763	1,360	-	2,123
	<u>13,205</u>	<u>562</u>	<u>(311)</u>	<u>13,456</u>	<u>2,190</u>	<u>(736)</u>	<u>14,910</u>
Less accumulated depreciation	<u>11,957</u>	<u>720</u>	<u>(577)</u>	<u>12,100</u>	<u>333</u>	<u>(738)</u>	<u>11,695</u>
Total capital assets, net	<u>\$ 1,248</u>	<u>\$ (158)</u>	<u>\$ 266</u>	<u>\$ 1,356</u>	<u>\$ 1,857</u>	<u>\$ 2</u>	<u>\$ 3,215</u>

7. 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 2013. This association offers the Powerball with Power Play, Mega Millions with Megaplier and several other Terminal 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 and Mega Millions with Megaplier 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, 2013, and June 30, 2012, the Lottery had deposits with MUSL of \$19,037,144, and \$19,995,144, 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.

8. LONG-TERM LIABILITIES

a. Grand Prizes Payable

Grand prizes payable at June 30 consisted of (in thousands):

	2013	2012
FLORIDA LOTTO grand prizes (face value)	\$ 530,605	\$ 662,012
MEGA MONEY grand prizes (face value)	8,677	8,796
Win for Life grand prizes (face value)	11,566	11,930
Flamingo Fortune Game Show grand prizes (face value)	500	600
Win a Million grand prizes (face value)	250	300
Yearly Bonus grand prizes (face value)	-	50
Lucky for Life grand prizes (face value)	20,900	21,750
Set for Life grand prizes (face value)	1,920	2,100
Cash Spectacular grand prizes (face value)	500	550
Cash for Life grand prizes (face value)	200	210
Loaded for Life grand prizes (face value)	2,750	2,850
Billion Dollar Blockbuster grand prizes (face value)	8,450	8,000
Gas for Life grand prizes (face value)	180	186
2 Million Dollar Casino Action grand prizes (face value)	1,700	1,800
Million Dollar Holiday grand prizes (face value)	900	950
Week for Life grand prizes (face value)	22,724	13,650
Monopoly grand prizes (face value)	2,700	2,850
Million Wishes grand prizes (face value)	950	-
X's The Cash grand prizes (face value)	950	-
Less imputed interest	<u>(160,229)</u>	<u>(185,559)</u>
Net present value of grand prizes payable	<u>\$ 456,193</u>	<u>\$ 553,025</u>
Current prizes payable from restricted assets	\$ 112,751	\$ 130,728
Noncurrent prizes payable from restricted assets	<u>343,442</u>	<u>422,297</u>
Total grand prizes payable	<u>\$ 456,193</u>	<u>\$ 553,025</u>

The following depicts by fiscal year the value (in thousands) of the grand prize annuities to pay prizewinners:

Year Ended June 30	Amount
2014	\$ 112,603
2015	85,116
2016	65,211
2017	43,649
2018	24,478
2019-2023	92,865
2024-2028	100,474
2029-2033	65,215
2034-2038	17,442
2039-2043	<u>9,369</u>
Grand prizes (face value)	<u>616,422</u>
Less imputed interest	<u>(160,229)</u>
Net present value of grand prizes payable	<u>\$ 456,193</u>

b. Compensated Absences Payable

Compensated absences payable at June 30 consisted of (in thousands):

	<u>2013</u>	<u>2012</u>
Current compensated absences	\$ 769	\$ 785
Noncurrent compensated absences	<u>2,908</u>	<u>2,798</u>
Total	<u>\$ 3,677</u>	<u>\$ 3,583</u>

c. Changes in Long-Term Liabilities

Changes in long-term liabilities are summarized as follows (in thousands):

	<u>2012-2013</u>				
	<u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u>	<u>Amount Due Within One Year</u>
	<u>June 30, 2012</u>	<u></u>	<u></u>	<u>June 30, 2013</u>	<u></u>
Grand prizes payable	\$ 553,025	\$ 38,119	\$ (134,951)	\$ 456,193	\$ 112,751
Compensated absences	3,583	1,223	(1,130)	3,676	769
Postemployment healthcare benefits payable	2,196	766	-	2,962	-
Total long-term liabilities	<u>\$ 558,804</u>	<u>\$ 40,108</u>	<u>\$ (136,081)</u>	<u>\$ 462,831</u>	<u>\$ 113,520</u>

	<u>2011-2012</u>				
	<u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u>	<u>Amount Due Within One Year</u>
	<u>June 30, 2011</u>	<u></u>	<u></u>	<u>June 30, 2012</u>	<u></u>
Grand prizes payable	\$ 659,978	\$ 49,182	\$ (156,135)	\$ 553,025	\$ 130,728
Compensated absences payable	3,552	1,635	(1,604)	3,583	785
Postemployment healthcare benefits payable	1,472	724	-	2,196	-
Total long-term liabilities	<u>\$ 665,002</u>	<u>\$ 51,541</u>	<u>\$ (157,739)</u>	<u>\$ 558,804</u>	<u>\$ 131,513</u>

See Note 10 for additional information regarding the postemployment healthcare benefits payable.

9. DUE TO EDUCATIONAL ENHANCEMENT TRUST FUND

In accordance with the Act, effective July 1, 2005, variable percentages of the gross revenue from the sale of Terminal games and Scratch-Off lottery tickets as determined by the Lottery, and other earned revenue, excluding application processing fees, shall be deposited in the EETF as provided in Section 24.121, Florida Statutes, as amended. The amount transferred for the fiscal year ended June 30, 2013, was \$1,424,307,000 (28.4 percent of revenues), and for the fiscal year ended June 30, 2012, the transferred amount was \$1,321,604,000 (29.7 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.

The amount due to the EETF at June 30, 2013, and June 30, 2012, was as follows (in thousands):

	<u>June 30, 2013</u>	<u>June 30, 2012</u>
Terminal ticket sales	\$ 1,984,469	\$ 1,882,905
Average percent transferred	38%	39%
Transfer of Terminal ticket sales ¹	<u>754,846</u>	<u>729,820</u>
Unclaimed Terminal ticket prizes	28,214	26,608
Percent transferred	80%	80%
Transfer of unclaimed Terminal ticket prizes	<u>22,571</u>	<u>21,286</u>
Unclaimed Powerball jackpot prizes	-	4,007
Scratch-Off ticket sales	3,028,527	2,566,991
Average percent transferred	20%	21%
Transfer of Scratch-Off ticket sales ¹	<u>605,842</u>	<u>541,616</u>
Unclaimed Scratch-Off ticket prizes	35,084	12,888
Percent transferred	80%	80%
Transfer of unclaimed Scratch-Off ticket prizes	<u>28,068</u>	<u>10,310</u>
Nonoperating revenues (expenses), net	(37,816)	30,682
Add:		
Net (appreciation) depreciation in fair value of investments	13,749	(60,221)
Amortization of grand prizes payable	29,068	36,446
Total Nonoperating revenues, net	<u>5,001</u>	<u>6,907</u>
Terminal fees and miscellaneous revenue	<u>7,979</u>	<u>7,658</u>
Due for the year	<u>\$ 1,424,307</u>	<u>\$ 1,321,604</u>
Balance due, beginning of year	51,604	81,818
Paid during the year	<u>(1,399,800)</u>	<u>(1,351,818)</u>
Due to Educational Enhancement Trust Fund, June 30	<u>\$ 76,111</u>	<u>\$ 51,604</u>

¹Amounts do not foot due to rounding of average percent transferred.

10. 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 (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, required employer and employee 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 for members initially enrolled before July 1, 2011, and at eight years for members initially enrolled on or after July 1, 2011. 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. For members initially enrolled on or after July 1, 2011, Special Risk Class members are eligible for normal retirement benefits at age 60 and vested or after 30 years of service at any age. All other members are eligible for normal retirement benefits at age 65 and vested or at any age after 33 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. Retirees with service prior to July 1, 2011, receive annual cost-of-living adjustments. Retirees only with service accrued on or after July 1, 2011, do not 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 if initially enrolled before July 1, 2011, or the average of highest eight fiscal years if initially enrolled on or after July 1, 2011).

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. If an accumulated benefit obligation for service credit originally earned under the FRS Pension Plan is transferred to the FRS Investment Plan, six years of service (including the service credit represented by the transferred funds) is required to be vested for these funds and the earnings on the funds. 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 and employee contributions are a percentage of salary 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 established uniform contribution rates for participating FRS employees. 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 are as follows:

Class or Plan	Employee Rate Fiscal Year Ended	Employer Rate Fiscal Year Ended	Employee Rate Fiscal Year Ended	Employer Rate Fiscal Year Ended
	June 30, 2013	June 30, 2013	June 30, 2012	June 30, 2012
Senior Management Service	3.00 percent	6.30 percent	3.00 percent	6.27 percent
Regular	3.00 percent	5.18 percent	3.00 percent	4.91 percent
Special Risk	3.00 percent	14.90 percent	3.00 percent	14.10 percent
DROP - Applicable to members from all of the above classes	0.00 percent	5.51 percent	0.00 percent	4.42 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 0.03 percent for fiscal year ended June 30, 2012 and June 30, 2013, for administrative costs of the financial education program and the Investment Plan. Required employee contributions are deducted on a pre-tax basis.

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 employer contributions for the fiscal years ended June 30, 2013, June 30, 2012, and June 30, 2011, totaled \$851,755, \$957,759, and \$1,681,368, respectively, which were equal to 100 percent of the required contributions for each fiscal year. These contributions represented 5.4 percent, 5.7 percent, and 10.4 percent of covered payroll, for the fiscal years ended June 30, 2013, June 30, 2012, and June 30, 2011, 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 9.49 percent of covered payroll for July 2011 through June 2012 and 6.27 percent of covered payroll for July 2012 through June 2013. 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, 2013, June 30, 2012, and June 30, 2011, totaled \$13,103, \$24,509, and \$52,329 respectively.

Retiree Health Insurance Subsidy Program. 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, 2013, and 2012, 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, 2013, 2012, and 2011, 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 ended June 30, 2013, 2012, and 2011, the Lottery contributed \$173,089, \$182,359, and \$179,978, 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 the 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 No. 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, 2013, June 30, 2012, and June 30, 2011, was \$2,962,000, \$2,196,000, and \$1,472,000, respectively.

11. **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, 2013, are scheduled as follows (in thousands):

Year Ending June 30	Office and Warehouse Space for Headquarters		Computer Equipment		Total
	Headquarters	Districts			
2014	\$ 2,690	\$ 1,022	\$ 352	\$ 4,064	
2015	2,717	849	256	3,822	
2016	2,744	877	-	3,621	
2017	2,772	909	-	3,681	
2018	2,801	936	-	3,737	
2019-2023	234	3,036	-	3,270	
2024-2028	-	787	-	787	
2029-2032	-	633	-	633	
Total	\$ 13,958	\$ 9,049	\$ 608	\$ 23,615	

Rental expense under all operating leases totaled approximately \$4,072,000 and \$3,669,000 for the fiscal years ended June 30, 2013, and 2012, respectively.

12. **VENDOR SUPPORT FUNDS**

Each of the gaming vendor contracts requires the vendors to provide a fund for marketing support activities as directed by the Lottery. The vendors are required to make deposits into the designated accounts either weekly or monthly and distribute the funds as directed by the Lottery. The funds are used for market research and other expenses directly linked to product sales. Vendor balances committed for marketing and research vary as result of timing of marketing initiatives, industry developments and changes in technology. Actual cash balances for these activities as of June 30, 2006, through June 30, 2013, range from approximately \$1,207,000 to \$3,874,000. Each contract requires that any funds remaining in the accounts at the end of each contract's term will be returned to the Lottery for transfer to the EETF. Historically, no balances have reverted to the Lottery. The contracts were last renewed for GTech and Scientific Games in March 2011 and October 2008, respectively.

Vendor support fund activities are summarized as follows (in thousands):

2012-2013 Vendor Support Funds				
	Balance June 30, 2012	Additions	Deletions	Balance June 30, 2013
GTech	\$ 286	\$ 360	\$ (306)	\$ 340
Scientific Games	2,847	3,380	(4,072)	2,155
Total Vendor Support	\$ 3,133	\$ 3,740	\$ (4,378)	\$ 2,495

2011-2012 Vendor Support Funds				
	Balance June 30, 2011	Additions	Deletions	Balance June 30, 2012
GTech	\$ 146	\$ 598	\$ (458)	\$ 286
Scientific Games	2,893	3,537	(3,583)	2,847
Total Vendor Support	\$ 3,039	\$ 4,135	\$ (4,041)	\$ 3,133

13. OTHER COMMITMENTS

The Lottery has contractual agreements under which Terminal and Scratch-Off lottery game vendors provide gaming systems, tickets, and related services. The Lottery's Terminal gaming vendor is compensated at a rate of 1.0699% of net Terminal game ticket sales. The vendor's compensation for Terminal games and for the provision of full service vending machines for the fiscal years ended June 30, 2013, and 2012, was \$31,012,000, and \$27,622,000, respectively.

The Lottery's Scratch-Off ticket vendor is compensated at rates that range from 0.9985 percent to 2.24 percent based on ticket price points and total annual sales. Compensation under this agreement and the agreement for the provision of instant ticket vending machines amounted to \$44,193,000 for the fiscal year ended June 30, 2013, and \$38,906,000 for the fiscal year ended June 30, 2012.

14. 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: 850-412-2722
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*

Report on the Financial Statements

We have audited, 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, the financial statements of the Florida Department of the Lottery (Lottery), as of and for the fiscal year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Florida Lottery's basic financial statements, and have issued our report thereon dated January 24, 2014, included under the heading **INDEPENDENT AUDITOR'S REPORT**.

Internal Control over Financial Reporting

We have examined the effectiveness of the Lottery's internal control over financial reporting as of June 30, 2013, 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 and for its assertion of the effectiveness of internal control, included in the accompanying **MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING**. Our responsibility is to express an opinion on the effectiveness of internal control over financial reporting based on our examination.

We conducted our examination 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. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our examination included obtaining an understanding of the internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our examination also included performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

An entity'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.

Because of its inherent limitations, internal control may not prevent, or detect and correct misstatements. Also, projections of any evaluation of effectiveness 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, 2013, based on the criteria established in *Internal Control – Integrated Framework* issued by COSO. 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 from 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, which are discussed in the accompanying **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.

Purpose of the Report

The purpose of the **INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON THE AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS** is solely to describe the scope of our testing of internal control and on compliance and the result of that testing, and to provide an opinion on the effectiveness of the Lottery's internal control. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Lottery's internal control and compliance. Accordingly, this report is not suitable for any other purpose.

Respectfully submitted,



David W. Martin, CPA
January 24, 2014

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

RICK SCOTT
Governor



CYNTHIA F. O'CONNELL
Secretary

January 24, 2014

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, 2013, 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, 2013, the Florida Lottery's internal control over financial reporting is effective based on the criteria established in *Internal Control – Integrated Framework*.

The Florida Lottery

A handwritten signature in black ink, appearing to read "Cynthia F. O'Connell".
Cynthia O'Connell
Secretary

**STATE OF FLORIDA
DEPARTMENT OF THE LOTTERY
SCHEDULE OF FINDINGS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

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 eight separate areas, five of which were also identified in the prior audit. To avoid the possibility of compromising Lottery information, specific details of these issues are not disclosed in this report. However, the appropriate Lottery personnel have been notified of these issues.

Recommendation: *We recommend that Lottery management make the necessary IT control enhancements 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 be minority business enterprises, as defined in Section 288.703(3), 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(4), Florida Statutes.

Our audit disclosed that as of July 1, 2013, retailers comprising one minority type totaled approximately 65 percent of the total number of minority retailers. A similar finding has been included in previous Auditor General reports.

The Lottery has developed an outreach program to increase retailer participation in under-represented minority groups; however, despite these efforts, the level of participation from these groups decreased slightly over the past fiscal year.

Recommendation: *We recommend that the Lottery continue its efforts to increase retailer participation in under-represented minority groups.*

EXHIBIT A
MANAGEMENT'S RESPONSE

RICK SCOTT
Governor



CYNTHIA F. O'CONNELL
Secretary

January 24, 2014

David W. Martin, CPA
Florida Auditor General
G74 Claude Pepper Building
111 West Madison Street
Tallahassee, Florida 32399-1450

Dear Mr. Martin:

The Lottery has received your January 10, 2014 list of preliminary and tentative audit findings and recommendations resulting from your audit of the Lottery's Financial Statements for the fiscal year ended June 30, 2013. The staff has discussed your recommendations and responds as follows:

1. Recommendation: Lottery management make the necessary IT control enhancements to address the issues identified.

Response: The Lottery has made the necessary enhancements presented by this audit or is in the process of implementing the enhancements. The Lottery has an ongoing process to improve IT controls and will continue to reengineer where necessary to tighten controls.

2. Recommendation: The Lottery continue in its efforts to increase retailer participation in under-represented minority groups.

Response: As noted in the initial response, the Lottery continues its efforts to increase retailer participation in under-represented minority groups with strategic initiatives including attending minority trade shows to recruit retailers, working with Florida's Petroleum Marketers Association to identify and recruit new retailers including minority operators, advertising in minority business journals by featuring minority retailers currently selling Lottery products, exploring non-traditional trade style retailer prospects, and providing access to inquire how to become a retailer through the Lottery's website.

Despite these efforts, the level of participation from these groups has decreased slightly over the past fiscal year. A number of factors could contribute to this decline including the challenges presented by current economic conditions as well as the

EXHIBIT A
MANAGEMENT'S RESPONSE (CONTINUED)

January 24, 2014

David W. Martin

Page Two

aggressive corporate convenience store expansion taking place in Florida, often purchasing units from struggling independent operators including minority retailers.

However, we agree with the recommendation and will continue to aggressively pursue retailer participation in under-represented minority groups.

I would like to thank your staff for their efforts on behalf of the Lottery and look forward to receiving your final report.

Sincerely,


Cynthia F. O'Connell
Secretary

cc: J. Bruce Hoffmann, Chief of Staff
Ellyn Hutson, Chief Financial Officer
Tom Delacenserie, Deputy Secretary
Louisa Warren, Deputy General Counsel
Andy Mompeller, Inspector General

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APPENDIX F

[FORM OF BOND COUNSEL OPINION]

March 20, 2014

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:

\$186,170,000
STATE OF FLORIDA
STATE BOARD OF EDUCATION
LOTTERY REVENUE REFUNDING BONDS, SERIES 2014A
Dated March 20, 2014
(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 outstanding State of Florida, State Board of Education Lottery Revenue Bonds, Series 2005A and 2006A (the "Economically Defeased Bonds") and paying costs of issuance 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 in the aggregate principal amount of \$2,615,292,000 following the issuance of the Bonds, including the Economically Defeased Bonds.

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 December 10, 2013 (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, a portion of the interest on the Bonds owned by corporations may be subject to the federal alternative minimum tax which is based in part on adjusted current earnings. 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.

Respectfully submitted,

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 \$186,170,000 State of Florida, State Board of Education Lottery Revenue Refunding Bonds, Series 2014A (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 December 10, 2013, (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 in its entirety 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, 2014, 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;
- (f) Summary of Operating and Administrative Budget; and
- (g) Litigation.

(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 _____, 2014.

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

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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 2014A (the "2014A Bonds"). The 2014A 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 2014A 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 2014A Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2014A Bonds on DTC's records. The ownership interest of each actual purchaser of each 2014A 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 2014A 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 2014A Bonds, except in the event that use of the book-entry system is discontinued.

To facilitate subsequent transfers, all 2014A 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 2014A 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 2014A Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such 2014A 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 2014A Bonds may wish to take certain steps to augment transmission to them of notices of significant events with respect

to the 2014A Bonds, such as redemptions, tenders, defaults, and proposed amendments to the 2014A Bond documents. For example, Beneficial Owners of 2014A Bonds may wish to ascertain that the nominee holding the 2014A 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 2014A 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 2014A 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 2014A 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 2014A 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 2014A 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 2014A 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 2014A Bonds will be printed and delivered as provided in the documents authorizing the issuance and sale of the 2014A Bonds.

For every transfer and exchange of beneficial interests in the 2014A 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 2014A Bonds, references herein to the Registered Owners or Holders of the 2014A Bonds shall mean Cede & Co. and not mean the Beneficial Owners of the 2014A 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 2014A 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 2014A 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 2014A Bonds, or the purchase price of, any 2014A 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 2014A Bonds for partial redemption.

So long as the 2014A 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 2014A Bonds for all purposes whatsoever, including, without limitation:

- (i) the payment of the principal of, premium, if any, and interest on the 2014A Bonds;
- (ii) giving notices of redemption and other matters with respect to the 2014A Bonds;
- (iii) registering transfers with respect to the 2014A Bonds; and
- (iv) the selection of the beneficial ownership interests in the 2014A 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 2014A Bond as the absolute owner for all purposes, whether or not such 2014A Bond is overdue, and will not be bound by any notice to the contrary.

Principal of and premium, if any, on the 2014A Bonds will be payable upon presentation and surrender of the 2014A 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 2014A 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 2014A 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 2014A 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 2014A 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 2014A 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 2014A Bond is delivered.

The Bond Registrar/Paying Agent will not be required to issue, transfer or exchange any 2014A Bonds on the Record Date.

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