NEW ISSUE—BOOK-ENTRY ONLY

Ratings:
Moody's: A1
S&P: A
Fitch: A
(See "RATINGS" herein)

$2,097,490,000
STATE OF CALIFORNIA
GENERAL OBLIGATION BONDS

$689,630,000
VARIOUS PURPOSE GENERAL OBLIGATION BONDS

$234,715,000
GENERAL OBLIGATION BONDS (SCHOOL FACILITIES)

$723,145,000
VARIOUS PURPOSE GENERAL OBLIGATION REFUNDING BONDS

$450,000,000
GENERAL OBLIGATION BONDS (MANDATORY PUT BONDS)

Dated: Date of Delivery

See "SUMMARY OF THE OFFERING" immediately following this cover page.

The State of California is issuing $689,630,000 Various Purpose General Obligation Bonds, $234,715,000 General Obligation Bonds (School Facilities) and $723,145,000 Various Purpose General Obligation Refunding Bonds, all bearing fixed interest rates (the "Fixed Rate Bonds") and $450,000,000 of General Obligation Bonds, comprised of two series designated as Series 2013A Bonds and Series 2013B Bonds (each a "Series of Mandatory Put Bonds"), each bearing a fixed rate of interest to the applicable Mandatory Tender Date as further described herein (the "Mandatory Put Bonds" and together with the Fixed Rate Bonds, the "Bonds"). Interest on the Fixed Rate Bonds is payable on May 1 and November 1 of each year, commencing May 1, 2014, at the respective rates per annum set forth in "SUMMARY OF THE OFFERING." Interest on each Series of Mandatory Put Bonds is payable on June 1 and December 1 of each year, commencing June 1, 2014, at the respective rates per annum set forth in "SUMMARY OF THE OFFERING" until the applicable Mandatory Tender Date. The Bonds may be purchased in principal amounts of $5,000 or any integral multiple thereof in book-entry form only. See "PROVISIONS APPLICABLE TO ALL BONDS—General" and APPENDIX B—"THE BOOK-ENTRY ONLY SYSTEM."

The State offered for sale, pursuant to a separate Official Statement, an additional series of Various Purpose General Obligation Bonds (Federally Taxable) in the principal amount of $186,020,000 (the "Taxable General Obligation Bonds") to be issued concurrently with the Bonds. Sale of the Bonds is not contingent on the sale of the Taxable General Obligation Bonds.

The Bonds are general obligations of the State to which the full faith and credit of the State are pledged. The principal of and interest on all State general obligation bonds, including the Bonds, are payable from any moneys in the General Fund of the State, subject under State law only to the prior application of such moneys to the support of the public school system and public institutions of higher education. See "AUTHORIZATION OF AND SECURITY FOR THE BONDS."

Certain of the Fixed Rate Bonds are subject to redemption prior to their stated maturities as described herein. See "PROVISIONS APPLICABLE TO FIXED RATE BONDS—Redemption."

Each Series of Mandatory Put Bonds is subject to optional redemption prior to its stated maturity as described herein. In addition, each Series of Mandatory Put Bonds is subject to mandatory tender for purchase on any date on or after its First Call Date, including the applicable Mandatory Tender Date, as described herein. See "SUMMARY OF THE OFFERING" and "PROVISIONS APPLICABLE TO THE MANDATORY PUT BONDS—Tender Provisions" and "—Redemption." **There is no source of moneys to pay the purchase price of a Series of Mandatory Put Bonds upon mandatory tender thereof on a purchase date, including the applicable Mandatory Tender Date, other than proceeds of remarketing or refunding thereof. If the State does not purchase a Series of Mandatory Put Bonds on a purchase date, including the related Mandatory Tender Date, such non-purchase shall not constitute an event of default. There is no liquidity facility in place for the payment of the purchase price of Mandatory Put Bonds on a purchase date, including the applicable Mandatory Tender Date.** Each Series of Mandatory Put Bonds is subject to adjustment to another interest rate period, as further described herein. THIS OFFICIAL STATEMENT IS NOT INTENDED TO PROVIDE INFORMATION WITH RESPECT TO ANY SERIES OF MANDATORY PUT BONDS AFTER ADJUSTMENT TO ANY NEW INTEREST RATE PERIOD.

This cover page contains certain information for general reference only. It is not a summary of the security or terms of the Bonds. Investors are advised to read the entire Official Statement to obtain information essential to the making of an informed investment decision.

MATURITIES, MANDATORY TENDER DATES, PRINCIPAL AMOUNTS, INTEREST RATES, YIELDS AND CUSIPS
(See "SUMMARY OF THE OFFERING")

The Bonds are offered when, as and if issued by the State and received by the Underwriters, subject to the approval of validity by the Honorable Kamala D. Harris, Attorney General of the State of California, and by Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the State. Orrick, Herrington & Sutcliffe LLP and Schiff Hardin LLP are serving as Co-Disclosure Counsel to the State with respect to the Bonds. Orrick, Herrington & Sutcliffe LLP and Stradling Yocca Carlson & Rauth, a Professional Corporation, are serving as Co-Disclosure Counsel to the State regarding Appendix A. Certain matters will be passed upon for the Underwriters by their counsel, Hawkins Delafield & Wood LLP. Public Resources Advisory Group is serving as the Financial Advisor to the State with respect to the Bonds. The Bonds are expected to be available for delivery through the facilities of The Depository Trust Company on or about November 5, 2013.

HONORABLE BILL LOCKYER
Treasurer of the State of California

Citigroup[(1)] **J.P. Morgan[(2)]**

(JOINT BOOKRUNNERS)

De La Rosa & Co.

Academy Securities, Inc.
Backstrom McCarley Berry & Co., LLC
Cabrera Capital Markets, LLC
Goldman, Sachs & Co.
Lebenthal & Co., LLC
Morgan Stanley
RH Investment Corp.
Siebert Brandford Shank & Co., L.L.C.
Stifel

Alamo Capital
Bank of America Merrill Lynch
City National Securities, Inc.
Hutchinson, Shockey Erley & Co.
Loop Capital Markets
Oppenheimer & Co. Inc.
Ramirez & Co., Inc.
Southwest Securities, Inc.
Wells Fargo Bank, National Association

BNY Mellon Capital Markets, LLC
Barclays
Fidelity Capital Markets
Jefferies
Mitsubishi UFJ Securities
RBC Capital Markets
SL Hare Capital, Inc.
Stern Brothers & Co.
William Blair & Company

Official Statement Dated: October 22, 2013

(1) Billing and delivery agent for the Mandatory Put Bonds.
(2) Billing and delivery agent for the Fixed Rate Bonds.

SUMMARY OF THE OFFERING

MATURITIES, MANDATORY TENDER DATES, PRINCIPAL AMOUNTS, INTEREST RATES, YIELDS AND CUSIPS[†]

$689,630,000
STATE OF CALIFORNIA
VARIOUS PURPOSE GENERAL OBLIGATION BONDS

Base CUSIP[†]: 13063C

Maturity Date (November 1)	Principal Amount	Interest Rate	Yield	CUSIP Number	Maturity Date (November 1)	Principal Amount	Interest Rate	Yield	CUSIP[†] Number
2014	$25,000,000	4.000%	0.150%	FG0	2021	$3,835,000	5.000%	2.740%	FX3
2018	11,815,000	4.000	1.500	FH8	2022	2,395,000	4.000	2.990	FM7
2018	8,390,000	2.000	1.500	FU9	2022	7,605,000	5.000	2.990	FY1
2018	78,340,000	5.000	1.500	FR6	2023	12,330,000	4.000	3.190	FN5
2019	12,765,000	2.000	1.930	FJ4	2023	12,670,000	5.000	3.190	FZ8
2019	8,015,000	4.000	1.930	FS4	2025	19,000,000	5.000	3.650 [C]	FV7
2020	9,290,000	4.000	2.390	FK1	2032	60,000,000	5.000	4.490 [C]	FP0
2020	7,015,000	5.000	2.390	FW5	2043	35,625,000	4.875	4.890	FQ8
2021	11,165,000	4.000	2.740	FL9	2043	364,375,000	5.000	4.890 [C]	FT2

$234,715,000
STATE OF CALIFORNIA
GENERAL OBLIGATION BONDS
(SCHOOL FACILITIES)

Base CUSIP[†]: 13063C

Maturity Date (November 1)	Principal Amount	Interest Rate	Yield	CUSIP[†] Number
2029	$80,000,000	5.000%	4.240%[C]	GA2
2030	80,000,000	5.000	4.350 [C]	GB0
2031	74,715,000	5.000	4.440 [C]	GC8

[C] Priced to call at par on November 1, 2023.

† Copyright 2013, American Bankers Association. CUSIP® is a registered trademark of the American Bankers Association. CUSIP data herein is provided by the CUSIP Service Bureau, managed on behalf of the American Bankers Association by Standard & Poor's. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services Bureau. CUSIP numbers have been assigned by an independent company not affiliated with the State and are included solely for the convenience of the registered owners of the applicable Bonds. Neither the State nor the Underwriters are responsible for the selection or uses of these CUSIP numbers, and no representation is made as to their correctness on the applicable Bonds or as included herein. The CUSIP number for a specific maturity is subject to being changed after the issuance of the Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of certain maturities of the Bonds.

MATURITIES, MANDATORY TENDER DATES, PRINCIPAL AMOUNTS, INTEREST RATES, YIELDS AND CUSIPS†
(Continued)

$723,145,000
STATE OF CALIFORNIA
VARIOUS PURPOSE GENERAL OBLIGATION REFUNDING BONDS

Base CUSIP†: 13063C

Maturity Date (November 1)	Principal Amount	Interest Rate	Yield	CUSIP† Number	Maturity Date (November 1)	Principal Amount	Interest Rate	Yield	CUSIP† Number
2014	$6,865,000	4.000%	0.150%	GD6	2023	$58,290,000	5.000%	3.190%	HB9
2015	3,430,000	4.000	0.380	GE4	2024	9,615,000	3.375	3.480	GP9
2016	1,065,000	4.000	0.680	GF1	2024	69,875,000	5.000	3.430 [C]	HC7
2017	215,000	4.000	1.000	GG9	2025	6,995,000	3.625	3.750	GQ7
2018	4,620,000	2.000	1.500	GH7	2025	94,170,000	5.000	3.650 [C]	HD5
2019	49,585,000	5.000	1.930	GJ3	2026	11,535,000	3.875	3.950	GR5
2020	9,970,000	2.250	2.390	GK0	2026	20,015,000	5.000	3.850 [C]	HE3
2020	49,685,000	5.000	2.390	GY0	2027	87,075,000	5.000	4.000 [C]	GS3
2021	5,650,000	2.625	2.740	GL8	2028	62,540,000	5.000	4.130 [C]	GT1
2021	57,000,000	5.000	2.740	GZ7	2029	25,000	5.000	4.240 [C]	GU8
2022	3,970,000	2.875	2.990	GM6	2030	7,630,000	5.000	4.350 [C]	GV6
2022	61,975,000	5.000	2.990	HA1	2031	7,990,000	5.000	4.440 [C]	GW4
2023	11,110,000	3.125	3.190	GN4	2032	22,250,000	4.500	4.600	GX2

$450,000,000
STATE OF CALIFORNIA
GENERAL OBLIGATION BONDS
(MANDATORY PUT BONDS)

Base CUSIP†: 13063C

Series	Principal Amount	First Call Date(1)	Mandatory Tender Date(2)	Initial Interest Rate	Initial Yield	Maturity Date (December 1)	CUSIP† Number
2013A	$225,000,000	06/01/2016	12/01/2016	4.000%	0.920% [CC]	2026	FE5
2013B	225,000,000	06/01/2017	12/01/2017	4.000	1.320 [CCC]	2027	FF2

C Priced to call at par on November 1, 2023.
CC Priced to call at par on June 1, 2016.
CCC Priced to call at par on June 1, 2017.
(1) The June 1 preceding the related Mandatory Tender Date.
(2) Unless all Bonds of a Series of Mandatory Put Bonds subject to mandatory tender on the applicable Mandatory Tender Date are purchased on such date, none of such Series of Mandatory Put Bonds will be purchased. In such event the Tender Agent will return all Tendered Bonds of such Series of Mandatory Put Bonds to the Holders thereof and such Mandatory Put Bonds will then bear interest at successively higher interest rates until all Mandatory Put Bonds of such Series are remarketed, redeemed or paid at maturity as further described herein. See "PROVISIONS APPLICABLE TO THE MANDATORY PUT BONDS—Tender Provisions."

No dealer, broker, salesperson or other person has been authorized by the State to give any information or to make any representations with respect to the State or its Bonds other than those contained in this Official Statement and, if given or made, such other information or representations must not be relied upon as having been authorized by any of the foregoing.

The information set forth herein has been obtained from sources that are believed to be reliable. Estimates and opinions are included and should not be interpreted as statements of fact. Summaries of documents do not purport to be complete statements of their provisions and such summaries are qualified by references to the entire contents of the summarized documents. 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 by use of this Official Statement shall, under any circumstances, create any implication that there has been no change in the affairs of the State since the date hereof.

This Official Statement, including any supplement or amendment hereto, is intended to be deposited with, and may be obtained from the Municipal Securities Rulemaking Board ("MSRB") through the Electronic Municipal Market Access website of, the MSRB, currently located at http://emma.msrb.org. The information contained on such website is not part of this Official Statement and is not incorporated herein.

This Official Statement is not to be construed as a contract with the purchasers of the Bonds.

The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as a part of, their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICES OF THE BONDS AT LEVELS ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME. THE UNDERWRITERS MAY OFFER AND SELL BONDS TO CERTAIN DEALERS, INSTITUTIONAL INVESTORS AND OTHERS AT PRICES LOWER THAN THE PUBLIC OFFERING PRICES STATED IN "SUMMARY OF THE OFFERING" ON THE PAGES IMMEDIATELY FOLLOWING THE COVER PAGE HEREOF, AND SAID PUBLIC OFFERING PRICES MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITERS.

THE BONDS WILL NOT BE REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON AN EXEMPTION CONTAINED IN SUCH ACT. THE BONDS HAVE NOT BEEN REGISTERED OR QUALIFIED UNDER THE SECURITIES LAWS OF ANY STATE. THE BONDS HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY, AND THE FOREGOING AUTHORITIES HAVE NEITHER REVIEWED NOR CONFIRMED THE ACCURACY OF THIS DOCUMENT.

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OFFICIAL STATEMENT

$2,097,490,000
STATE OF CALIFORNIA
GENERAL OBLIGATION BONDS

$689,630,000 **VARIOUS PURPOSE GENERAL OBLIGATION BONDS**	**$234,715,000** **GENERAL OBLIGATION BONDS (SCHOOL FACILITIES)**
$723,145,000 **VARIOUS PURPOSE GENERAL OBLIGATION REFUNDING BONDS**	**$450,000,000** **GENERAL OBLIGATION BONDS (MANDATORY PUT BONDS)**

INTRODUCTION

This Introduction contains only a brief summary of the terms of the captioned Bonds and a brief description of this Official Statement; a full review should be made of the entire Official Statement, including the Appendices. Summaries of provisions of the Constitution and laws of the State of California (the "State") or any other documents referred to in this Official Statement do not purport to be complete and such summaries are qualified in their entirety by references to the complete provisions.

Description of the Bonds

This Official Statement describes $2,097,490,000 aggregate principal amount of (i) State various purpose general obligation bonds comprised of eight (8) series of bonds in the aggregate principal amount of $689,630,000 bearing interest at fixed rates (the "Construction Bonds"), (ii) State general obligation bonds (school facilities) comprised of two (2) series of bonds in the aggregate principal amount of $234,715,000 bearing interest at fixed rates (the "School Facilities Bonds"), (iii) State various purpose general obligation refunding bonds comprised of thirty-two (32) series of bonds in the aggregate principal amount of $723,145,000 bearing interest at fixed rates (the "Refunding Bonds" and, together with the Construction Bonds and the School Facilities Bonds, the "Fixed Rate Bonds"), and (iv) State general obligation bonds comprised of two (2) series of bonds in the aggregate principal amount of $450,000,000 bearing interest at rates which may change from time to time and which are subject to mandatory tender for purchase (the "Mandatory Put Bonds," and together with the Fixed Rate Bonds, the "Bonds"). The Bonds are described further below under "PROVISIONS APPLICABLE TO ALL BONDS." The Fixed Rate Bonds are additionally described below under "PROVISIONS APPLICABLE TO THE FIXED RATE BONDS—Identification, Authorization and Purposes of the Fixed Rate Bonds." The Mandatory Put Bonds are additionally described below under "PROVISIONS APPLICABLE TO THE MANDATORY PUT BONDS—Identification, Authorization and Purposes of the Mandatory Put Bonds."

Each Series of Mandatory Put Bonds is subject to adjustment to another interest rate period, as further described herein. THIS OFFICIAL STATEMENT IS NOT INTENDED TO PROVIDE INFORMATION WITH RESPECT TO ANY SERIES OF MANDATORY PUT BONDS AFTER ADJUSTMENT TO ANY NEW INTEREST RATE PERIOD.

The Bonds will be registered in the name of a nominee of The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for the Bonds. Beneficial interests in the Bonds may be purchased in book-entry form only, in denominations of $5,000 or any integral multiple thereof. See "PROVISIONS APPLICABLE TO ALL BONDS—General" and APPENDIX B—"THE BOOK-ENTRY ONLY SYSTEM."

The issuance of each series of Bonds is authorized by the related general obligation bond act identified under "PROVISIONS APPLICABLE TO THE FIXED RATE BONDS—Identification, Authorization and Purposes of the Fixed Rate Bonds" and "PROVISIONS APPLICABLE TO THE MANDATORY PUT BONDS—Identification, Authorization and Purposes of the Mandatory Put Bonds" (each a "Bond Act" and collectively, the "Bond Acts") approved by the voters of the State and by resolutions of the applicable finance committees designated under such Bond Acts (collectively, the "Resolutions"). On any debt service payment date, all general obligation bonds, including the Bonds, have an equal claim on moneys in the General Fund of the State Treasury (the "General Fund") on that date for payment of debt service.

Plan of Finance

Proceeds of the Bonds will be used to: (i) finance and refinance projects under certain of the Bond Acts, and (ii) pay the cost of issuance of the Bonds. See "PLAN OF FINANCE."

The State offered for sale, pursuant to a separate Official Statement, an additional series of Various Purpose General Obligation Bonds (Federally Taxable) in the principal amount of $186,020,000 (the "Taxable General Obligation Bonds") to be issued concurrently with the Bonds. Sale of the Bonds is not contingent on the sale of the Taxable General Obligation Bonds.

The State anticipates issuing on or about November 14, 2013, one or more additional series of variable rate general obligation bonds in the approximate aggregate principal amount of $300,000,000.

Security and Source of Payment for the Bonds

The principal of and interest on all State general obligation bonds, including the Bonds, are payable from moneys in the General Fund, subject under State law only to the prior application of moneys in the General Fund to the support of the public school system and public institutions of higher education. See "AUTHORIZATION OF AND SECURITY FOR THE BONDS—Security." See also APPENDIX A—"THE STATE OF CALIFORNIA—STATE FINANCES—The General Fund" and "—STATE INDEBTEDNESS AND OTHER OBLIGATIONS—Capital Facilities Financing—General Obligation Bonds."

Redemption of Bonds; Tender of Mandatory Put Bonds

Certain of the Fixed Rate Bonds are subject to redemption prior to their stated maturities, as described under "PROVISIONS APPLICABLE TO THE FIXED RATE BONDS—Redemption." Each Series of Mandatory Put Bonds is subject to optional redemption prior to its stated maturity on any date commencing on the June 1 preceding the related Mandatory Tender Date (each such June 1, a "First Call Date") until adjusted to another interest rate period at a price equal to 100% of the principal amount thereof, plus accrued interest. In addition, each Series of Mandatory Put Bonds is subject to mandatory tender for purchase on any date on or after its First Call Date (each such date, a "Purchase Date"), including on the related Mandatory Tender Date, at a price equal to 100% of the principal amount thereof, without premium, plus accrued interest. Unless all Bonds of a Series of Mandatory Put Bonds subject to mandatory tender on a Purchase Date, including the applicable Mandatory Tender Date, are purchased on such date, none of such Series of Mandatory Put Bonds will be purchased. In such event the Tender Agent will return all Bonds of such Series of Mandatory Put Bonds to the Holders thereof and such Mandatory Put Bonds will remain outstanding and bear interest at the then effective interest rate for such Mandatory Put Bonds; provided, however, if a Series of Mandatory Put Bonds is not purchased on the applicable Mandatory Tender Date such Series of Mandatory Put Bonds will on and after such date accrue interest at successively higher interest rates until all Mandatory Put Bonds of such Series are remarketed, redeemed or paid at maturity. See "PROVISIONS APPLICABLE TO THE MANDATORY PUT BONDS—Tender Provisions" and "—Redemption."

Information Related to this Official Statement

The information set forth herein has been obtained from official sources that are believed to be reliable, but is not guaranteed as to accuracy or completeness. The information and expressions of opinion herein are subject to change without notice and neither delivery of this Official Statement nor any sale made hereunder or any future use of this Official Statement shall, under any circumstances, create any implication that there has been no change in the affairs of the State since the date hereof.

All financial and other information presented or incorporated by reference in this Official Statement has been provided by the State from its records, except for information expressly attributed to other sources. The presentation of certain information, including tables of receipts from taxes and other revenues, is intended to show recent historic information and is not intended to indicate future or continuing trends in the financial position or other affairs of the State. No representation is made that past experience, as it might be shown by such financial and other information, will necessarily continue or be repeated in the future. Certain statements included or incorporated by reference in this Official Statement constitute "forward-looking statements." Such statements are generally identifiable by the terminology used such as "plan," "expect," "estimate," "budget" or other similar words. The achievement of certain results or other expectations contained in such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Any statements made in this Official Statement involving matters of opinion, whether expressly stated or not, are set forth as such and not as representations of fact.

A wide variety of other information concerning the State, including financial information, is available from State agencies, State agency publications and State agency websites. Such information includes websites operated by the State Department of Finance, the State Controller's Office and the State Treasurer's Office. Any such information that is inconsistent with the information set forth in this Official Statement should be disregarded. No such information is a part of or incorporated into this Official Statement, except as expressly noted in APPENDIX A—"THE STATE OF CALIFORNIA—FINANCIAL STATEMENTS."

The information in APPENDIX B—"THE BOOK-ENTRY ONLY SYSTEM" regarding DTC and its book-entry system has been furnished by DTC and no representation is made by the State, the Underwriters or the Financial Advisor as to the accuracy or completeness of such information.

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

Continuing Disclosure

The State Treasurer will agree on behalf of the State to provide annually certain financial information and operating data relating to the State by not later than April 1 of each year in which any Bonds are outstanding (the "Annual Report"), commencing with the report to be filed on or before April 1, 2014, containing fiscal year 2012-13 financial information, and to provide notice of the occurrence of certain enumerated events. The specific nature of the information to be contained in the Annual Report and the notices of events and certain other terms of the continuing disclosure obligation are set forth in APPENDIX C—"FORM OF CONTINUING DISCLOSURE CERTIFICATE."

In the past five years, the State Treasurer has always filed its Annual Reports on a timely basis as required by its continuing disclosure undertakings. The State Treasurer has also, to his knowledge, complied with its undertakings to report on certain events, with the exception that in 2012 the State Treasurer discovered that the State had failed to file notices relating to downgrades of seven maturities of its general obligation bonds when a bond insurer's rating was downgraded. The State Treasurer was not aware of these occurrences at the time, since the rating agencies did not notify the State of their actions on the State's bonds. Reports for the actions have since been filed with the Electronic Municipal Market Access ("EMMA") website operated by the Municipal Securities Rulemaking Board (the "MSRB"). The State has thousands of individual maturities of general obligation bonds outstanding, and has procedures in place to monitor events which may affect them, including rating changes. Filings through EMMA are linked to a particular issue of obligations by CUSIP number, which however is subject to being changed after the issuance of obligations as a result of various subsequent actions. Although the State Treasurer's Office uses its best efforts to link each report filed through EMMA to the correct 9-digit CUSIP number, there can be no guarantee of complete accuracy in this process, given the large number of State CUSIPs.

The State's Annual Reports and other required reports are available from the EMMA website (www.emma.msrb.org) operated by the MSRB or on such other website as may be designated by MSRB or the Securities and Exchange Commission. The information contained on any such website is not part of this Official Statement and is not incorporated herein.

STATE FINANCIAL CONDITION

The following paragraphs present an extremely abbreviated summary of certain fiscal issues relating to the State, all of which are described in more detail in APPENDIX A. Investors should review the whole of APPENDIX A.

During the recent recession, which officially ended in 2009, the State experienced the most significant economic downturn since the Great Depression of the 1930s. As a result, State tax revenues declined precipitously, resulting in large budget gaps and occasional cash shortfalls in the period from 2008 through 2011.

In 2011, the State faced $20 billion in expected annual gaps between its revenues and spending for the ensuing several years. With the significant spending cuts enacted over the past two years (fiscal years 2011-12 and 2012-13) and new temporary revenues provided by the passage of Proposition 30, the forecast as of budget enactment projected that the State ended fiscal year 2012-13 with a positive reserve of $254 million, and that it will have a positive reserve of approximately $1.1 billion at June 30, 2014. Future updates will reflect recent legislative actions such as enactment by the Legislature and the Governor in September 2013 of a bill to appropriate an additional $315 million to the Department of Corrections and Rehabilitation in response to a court-ordered requirement to further reduce the prison population. Further, the State's budget is projected to remain balanced within the projection period ending in fiscal year 2016-17. The latest forecast projects continued modest growth in California's economy.

Despite the recent significant budgetary improvements, there remain a number of major risks and pressures that threaten the State's financial condition, including the need to repay billions of dollars of obligations which were deferred to balance budgets during the economic downturn. In addition, the State's revenues (particularly the personal income tax) can be volatile and correlates to overall economic conditions. There can be no assurances that the State will not face fiscal stress and cash pressures again, or that other impacts of the current economic situation will not materially adversely affect the financial condition of the State.

AUTHORIZATION OF AND SECURITY FOR THE BONDS

Authorization

The issuance of each series of Bonds is authorized by the related Bond Act identified under "PROVISIONS APPLICABLE TO THE FIXED RATE BONDS—Identification, Authorization and Purposes of the Fixed Rate Bonds" and "PROVISIONS APPLICABLE TO THE MANDATORY PUT BONDS—Identification, Authorization and Purposes of the Mandatory Put Bonds" approved by the voters of the State and by the related Resolution. Each Bond Act and the State General Obligation Bond Law in Chapter 4 (commencing with Section 16720) of Part 3 of Division 4 of Title 2 of the California Government Code, as incorporated by reference into each Bond Act, provide for the authorization, sale, issuance, use of proceeds, repayment and refunding of the related series of Bonds.

Security

The Bonds are general obligations of the State, and each series of the Bonds is payable in accordance with the related Bond Act and Resolution out of the General Fund, subject under State law only to the prior application of moneys in the General Fund to the support of the public school system and public institutions of higher education. The Bond Acts each provide that the State will collect annually in the same manner and at the same time as it collects other State revenue an amount sufficient to pay principal of and interest on the related series of Bonds in that year. The Bond Acts also each contain a continuing appropriation from the General Fund of the sum annually necessary to pay the principal of and interest on the related series of Bonds as they become due and payable. No further appropriation by the Legislature is required to pay the principal of and interest on the Bonds. Under the State Constitution, the appropriation to pay the principal of and interest on the Bonds as set forth in the Bond Acts cannot be repealed until the principal of and interest on the related Bonds are paid and discharged.

The Bond Acts each provide that the bonds issued thereunder "shall be and constitute a valid and binding obligation of the State, and the full faith and credit of the State is hereby pledged for the punctual payment of the principal of, and interest on, the bonds as the principal and interest become due and payable." The pledge of the full faith and credit of the State alone does not create a lien on any particular moneys in the General Fund or any other assets of the State, but is an undertaking by the State to be irrevocably obligated in good faith to use its taxing powers as may be required for the full and prompt payment of the principal of and interest on all general obligation bonds as they become due. The only provision of the State Constitution that creates a higher priority for any State fiscal obligation is a provision directing that from all State revenues there will first be set apart the moneys to be applied by the State for the support of the public school system and public institutions of higher education. In the past when cash resources in the General Fund have been constrained, State officials have worked within their powers granted by State law to manage cash resources to ensure that payments to schools and universities and for general obligation debt service would be made. On any debt service payment date, all general obligation bonds have an equal claim on moneys in the General Fund on that date for payment of debt service. See APPENDIX A—"THE STATE OF CALIFORNIA—STATE INDEBTEDNESS AND OTHER OBLIGATIONS—Capital Facilities Financing—General Obligation Bonds," "—CASH MANAGEMENT" and "—STATE FINANCES—State Warrants."

Remedies

Under each Resolution, it is an event of default of the State to fail to pay or to fail to cause to be paid, when due, principal of or interest or premium on any Bond issued pursuant thereto or to declare a moratorium on the payment of, or to repudiate, any such Bond.

Each Resolution states that in the case that one or more events of default occurs, then, and in every such case, the registered Bondholder is entitled to proceed to protect and enforce such registered Bondholder's rights by such appropriate judicial proceeding as such registered Bondholder deems most effectual to protect and enforce any such right, whether by mandamus or other suit or proceeding at law or in equity, for the specific performance of any covenant or agreement contained in the one or more Resolutions authorizing the affected Bonds, as more specifically set forth in each Resolution authorizing the Bonds pursuant to the respective Bond

Acts. Beneficial owners of the Bonds (the "Beneficial Owners") cannot protect and enforce such rights except through the registered Bondholder. See "PROVISIONS APPLICABLE TO ALL BONDS—General" and APPENDIX B—"THE BOOK-ENTRY ONLY SYSTEM."

Since the State has never failed to make a debt service payment on any general obligation bond when due, the exact steps which would be taken, or the remedies available to Bondholders, have never been tested. There are no cross-default provisions among general obligation bonds, so any default with respect to any particular issue of bonds would not provide any remedy to holders of other bonds which are not affected. The State is not eligible to file for protection under the federal bankruptcy laws.

PLAN OF FINANCE

Construction Bonds

Proceeds of the Construction Bonds will be used to: (i) fund projects under certain of the Bond Acts, (ii) pay certain of the State's outstanding general obligation commercial paper notes (the "CP Notes") as they mature, and (iii) pay the cost of issuance of the Construction Bonds. See "PROVISIONS APPLICABLE TO THE FIXED RATE BONDS—Identification, Authorization and Purposes of the Fixed Rate Bonds—Construction Bonds."

School Facilities Bonds

Proceeds of the School Facilities Bonds will be used to: (i) pay certain of the State's outstanding CP Notes as they mature, and (ii) pay the cost of issuance of the School Facilities Bonds. See "PROVISIONS APPLICABLE TO THE FIXED RATE BONDS—Identification, Authorization and Purposes of the Fixed Rate Bonds—School Facilities Bonds." See also APPENDIX F—"ADDITIONAL INFORMATION RELATING TO THE SCHOOL FACILITIES BONDS."

Refunding Bonds

General. Proceeds of the Refunding Bonds will be used to: (i) current refund certain of the State's general obligation bonds for debt service savings and (ii) pay certain costs of issuance of the Refunding Bonds. See "PROVISIONS APPLICABLE TO THE FIXED RATE BONDS—Identification, Authorization and Purposes of the Fixed Rate Bonds—Refunding Bonds."

Plan of Refunding. The State will deposit a portion of the net proceeds of the sale of the Refunding Bonds issued in the amount of $798,656,902.97 into the refunding escrow fund of the State Treasury established pursuant to Section 16784 of the California Government Code (the "Refunding Escrow Fund") to current refund $781,570,000.00 of selected maturities of outstanding State general obligation bonds (the "Refunded Bonds") on their respective redemption dates. The Refunded Bonds will be repaid within 90 days of the issuance of the Bonds so as to constitute a "current refunding" for federal tax purposes. Amounts in the Refunding Escrow Fund for the Refunded Bonds will be invested in the State Surplus Money Investment Fund, which is a portion of the State's Pooled Money Investment Account, described in APPENDIX A—"THE STATE OF CALIFORNIA—Investment of State Funds." See "VERIFICATION AND MATHEMATICAL COMPUTATIONS" herein.

Amounts in the Refunding Escrow Fund will be irrevocably dedicated to pay the principal of, premium, if any, and interest on the Refunded Bonds as they come due and may only be used for payment of debt service on the related Refunded Bonds, for certain expenses associated with the issuance of the Refunding Bonds and for other purposes permitted under Section 16782 of the California Government Code.

Exhibit 1 to this Official Statement details the principal amount, maturity date, interest rate, redemption date and redemption price of the Refunded Bonds.

Mandatory Put Bonds

Proceeds of the Mandatory Put Bonds will be used to: (i) fund projects under certain of the Bond Acts, and (ii) pay the cost of issuance of the Mandatory Put Bonds. "PROVISIONS APPLICABLE TO THE MANDATORY PUT BONDS—Identification, Authorization and Purposes of the Mandatory Put Bonds."

Current and Future General Obligation Bond Sales

The State is offering for sale, pursuant to a separate Official Statement, the Taxable General Obligation Bonds in the principal amount of $186,020,000 to be issued concurrently with the Bonds. Sale of the Bonds is not contingent on the sale of the Taxable General Obligation Bonds.

The State anticipates issuing on or about November 14, 2013, one or more additional series of variable rate general obligation bonds in the approximate aggregate principal amount of $300,000,000.

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ESTIMATED ANNUAL DEBT SERVICE REQUIREMENTS

The following table sets forth the estimated amounts required to be made available for the payment of principal, interest and the total payments due on the Bonds.

Fiscal Year Ended June 30	Construction Bonds Principal	School Facilities Bonds Principal	Refunding Bonds Principal	Mandatory Put Bonds Principal	Interest†	Fiscal Year Total Debt Service
2014	–	–	–	–	$49,139,499.43	$49,139,499.43
2015	$25,000,000	–	$6,865,000	–	96,809,087.50	128,674,087.50
2016	–	–	3,430,000	–	96,103,187.50	99,533,187.50
2017	–	–	1,065,000	–	96,013,287.50	97,078,287.50
2018	–	–	215,000	–	95,987,687.50	96,202,687.50
2019	98,545,000	–	4,620,000	–	93,658,487.50	196,823,487.50
2020	20,780,000	–	49,585,000	–	89,806,012.50	160,171,012.50
2021	16,305,000	–	59,655,000	–	86,562,975.00	162,522,975.00
2022	15,000,000	–	62,650,000	–	83,029,175.60	160,679,175.60
2023	10,000,000	–	65,945,000	–	79,366,377.28	155,311,377.28
2024	25,000,000	–	69,400,000	–	75,327,707.64	169,727,707.64
2025	–	–	79,490,000	–	71,224,387.26	150,714,387.26
2026	19,000,000	–	101,165,000	–	66,359,227.38	186,524,227.38
2027	–	–	31,550,000	$225,000,000	58,179,322.84	314,729,322.84
2028	–	–	87,075,000	225,000,000	46,278,593.75	358,353,593.75
2029	–	–	62,540,000	–	38,038,218.75	100,578,218.75
2030	–	$80,000,000	25,000	–	34,474,093.75	114,499,093.75
2031	–	80,000,000	7,630,000	–	30,282,718.75	117,912,718.75
2032	–	74,715,000	7,990,000	–	26,024,343.75	108,729,343.75
2033	60,000,000	–	22,250,000	–	21,956,093.75	104,206,093.75
2034	–	–	–	–	19,955,468.75	19,955,468.75
2035	–	–	–	–	19,955,468.75	19,955,468.75
2036	–	–	–	–	19,955,468.75	19,955,468.75
2037	–	–	–	–	19,955,468.75	19,955,468.75
2038	–	–	–	–	19,955,468.75	19,955,468.75
2039	–	–	–	–	19,955,468.75	19,955,468.75
2040	–	–	–	–	19,955,468.75	19,955,468.75
2041	–	–	–	–	19,955,468.75	19,955,468.75
2042	–	–	–	–	19,955,468.75	19,955,468.75
2043	–	–	–	–	19,955,468.75	19,955,468.75
2044	400,000,000	–	–	–	9,977,698.75	409,977,698.75
Total	$689,630,000	$234,715,000	$723,145,000	$450,000,000	$1,544,152,871.18	$3,641,642,871.18

† Interest on the Mandatory Put Bonds through their respective Mandatory Tender Dates is based upon the initial interest rates for each Series of Mandatory Put Bonds in "SUMMARY OF THE OFFERING" on the pages immediately following the cover page of this Official Statement and thereafter, assumes an estimated interest rate of 4%.

PROVISIONS APPLICABLE TO ALL BONDS

General

The Bonds will be registered in the name of a nominee of DTC, which will act as securities depository for the Bonds. Beneficial interests in the Bonds may be purchased in book-entry form only in denominations of $5,000 or any integral multiple thereof. See APPENDIX B—"THE BOOK-ENTRY ONLY SYSTEM." The information in APPENDIX B—"THE BOOK-ENTRY ONLY SYSTEM" has been furnished by DTC. No representation is made by the State or the Underwriters as to the accuracy or completeness of such information.

The Bonds will be dated and accrue interest from the date of their delivery, and will mature on the dates and in the amounts set forth in "SUMMARY OF THE OFFERING" on the pages immediately following the cover page of this Official Statement. Interest on the Bonds will be calculated on the basis of a 360-day year comprising twelve 30-day months. Principal and interest (including any applicable purchase price or redemption price) are payable directly to DTC by or on behalf of the State Treasurer. Upon receipt of payments of principal and interest, DTC is to remit such principal and interest to the Direct Participants in DTC for disbursement by the Participants to the Beneficial Owners of the Bonds.

If any payment on the Bonds is due on a day other than a Business Day, such payment shall be made on the next succeeding Business Day, and no interest will accrue as a result. "Business Day" means any day other than a Saturday, a Sunday, a State holiday or any other day determined not to constitute a Business Day pursuant to the book-entry only system of DTC. Certain State holidays may fall on days that are not banking holidays, and can vary from year to year. The record date for the payment of interest on the Bonds is the close of business on the 15th day of the month immediately preceding an Interest Payment Date, whether or not the record date falls on a Business Day.

Neither the State Treasurer nor the Underwriters can give assurance that DTC will distribute to Direct Participants, or that Participants or others will distribute to the Beneficial Owners, payment of amounts due on the Bonds paid or any redemption or other notices or that they will do so on a timely basis or will serve and act in the manner described in this Official Statement. Neither the State Treasurer nor the Underwriters are responsible or liable for the failure of DTC or any Direct Participant or Indirect Participant to make any payments or to give any notice to a Beneficial Owner with respect to the Bonds or for any error or delay relating thereto.

Amendments to Resolutions or Bonds

The State or the State Treasurer may at any time modify or amend the Resolutions or supplemental certificate setting the terms of the Bonds, respectively, with respect to any outstanding Bonds and may amend such outstanding Bonds and the rights and obligations of the Bondholders of such outstanding Bonds and of the State, without notice to or the consent of any Bondholder, but only to make such provisions for the purpose of (i) curing any ambiguity, curing, correcting or supplementing any defective provision contained in a Resolution or such supplemental certificate or (ii) complying with requirements of the Internal Revenue Code of 1986, as amended (the "Code"), in order to satisfy the covenants of the State set forth in each

Resolution relating to maintaining the tax exemption of interest on the Bonds; in each case as the applicable finance committee or the State Treasurer, respectively, may deem necessary or desirable, and which shall not adversely affect the interests of the Bondholders of the affected Bonds.

Refunding of Bonds

Pursuant to the Bond Acts and the provisions of California Government Code Section 16780 *et seq.* (the "Refunding Law"), refunding bonds may be issued to refund outstanding Bonds at or prior to their stated maturity. Pursuant to Section 16784 of the Refunding Law, the proceeds of such refunding bonds and other funds as described therein shall be deposited into the Refunding Escrow Fund and invested in Permitted Investments (defined below), which fund is irrevocably dedicated to pay the principal of, premium, if any, and interest on the refunded Bonds as they come due and for other purposes set forth in Section 16782 of the Government Code, including payment of costs of issuance of the refunding bonds. A separate account or accounts will be created within the Refunding Escrow Fund for each issue of refunding bonds.

"Permitted Investments" means (i) bonds or interest-bearing notes or obligations of the United States, or those for which the faith and credit of the United States are pledged for the payment of principal and interest, including receipts, certificates or any other evidences of an ownership interest in the investments identified in this clause (i) or in specified portions thereof; (ii) bonds or interest-bearing notes or obligations that are guaranteed as to principal and interest by a federal agency of the United States; (iii) pre-refunded municipal bonds which are rated no lower than the investments identified in clause (i) by each rating agency rating such bonds; (iv) bonds, consolidated bonds, collateral trust debentures, consolidated debentures or other obligations issued by federal land banks or federal intermediate credit banks established under the Federal Farm Loan Act, as amended; debentures and consolidated debentures issued by the Central Bank for Cooperatives and banks for cooperatives established under the Farm Credit Act of 1933, as amended; bonds or debentures of the Federal Home Loan Bank Board established under the Federal Home Loan Bank Act; bonds, debentures and other obligations of the Federal National Mortgage Association established under the National Housing Act as amended and bonds of any federal home loan bank established under that act; obligations of the Federal Home Loan Mortgage Corporation; bonds, notes and other obligations issued by the Tennessee Valley Authority under the Tennessee Valley Authority Act as amended; and bonds, notes and other obligations guaranteed by the Commodity Credit Corporation for the export of California agricultural products under the Commodity Credit Corporation Charter Act as amended, provided, however that the Permitted Investments specified in this clause (iv) shall be rated by at least two of any three rating agencies rating such obligations not lower than the higher of (1) the rating on the Bonds to be refunded at the time of the original issuance thereof and (2) the rating on the Bonds to be refunded at the time of refunding; or (v) deposit in the State Surplus Money Investment Fund.

In any refunding for which proceeds of refunding bonds (and other funds, if any) are deposited into the Refunding Escrow Fund for payment of Bonds greater than 90 days prior to the date of retirement of such Bonds, unless the moneys on deposit are held in the State Surplus Money Investment Fund or as uninvested cash or both and are sufficient to pay when due all of the principal, premium, if any, and interest on such refunded Bonds until maturity or the date fixed for redemption without accounting for investment earnings thereon, the State Treasurer is required to obtain a report from a firm of independent public accountants verifying the sufficiency of such deposit.

PROVISIONS APPLICABLE TO THE FIXED RATE BONDS

General

Interest on the Fixed Rate Bonds is payable on May 1 and November 1 in each year commencing on May 1, 2014 at the rates shown in "SUMMARY OF THE OFFERING" on the pages immediately following the cover page of this Official Statement.

The terms of each series of Fixed Rate Bonds are substantially identical, except that the State may assign each maturity of the Fixed Rate Bonds to one or more Bond Acts, rather than having all of the Fixed Rate Bonds mature proportionally by Bond Act across the entire maturity schedule.

Identification, Authorization and Purposes of the Fixed Rate Bonds

Construction Bonds. The Construction Bonds are being issued to (i) fund projects under certain of the Bond Acts, (ii) pay certain of the CP Notes as they mature, and (iii) pay the cost of issuance of the Construction Bonds. CP Notes to be refunded with the proceeds of the Construction Bonds will be repaid within 90 days after the issuance of the Construction Bonds so as to constitute a "current refunding" for federal tax purposes. The Construction Bonds are issued as eight (8) separate series under seven (7) separate Bond Acts, each authorized by the voters, as set forth below.

A portion of the proceeds of the Construction Bonds, after payment of certain costs of issuance, will be used to finance or refinance capital facilities or other voter-approved costs for public purposes, including parks and recreation, clean water and clean air; public primary, secondary, community college and university education facilities; highway safety, traffic reduction, air quality and port security; and water quality, water supply and river, coastal and beach protection; , pursuant to the Bond Acts identified below. Such proceeds may only be used for the aforementioned purposes and may not be borrowed for cash flow management or budgetary purposes.

Bond Act	Finance Committee	Series Designation	Amount ($)
Higher Education Facilities Bond Act of June 1992	Higher Education Facilities Finance Committee	BD	105,000
Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006	Highway Safety, Traffic Reduction, Air Quality, and Port Security Committee	AE	257,420,000
Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006	Highway Safety, Traffic Reduction, Air Quality, and Port Security Committee	AF	158,325,000
Kindergarten-University Public Education Facilities Bond Act of 2004	Higher Education Facilities Finance Committee	BF	1,910,000

Bond Act	Finance Committee	Series Designation	Amount ($)
Kindergarten-University Public Education Facilities Bond Act of 2006	Higher Education Facilities Finance Committee	AM	124,045,000
Public Education Facilities Bond Act of 1996	Higher Education Facilities Finance Committee	CK	240,000
Safe Neighborhood Parks, Clean Water, Clean Air, and Coastal Protection Bond Act of 2000 (the Villaraigosa-Keeley Act)	Safe Neighborhood Parks, Clean Water, Clean Air, and Coastal Protection (Villaraigosa-Keeley Act) Finance Committee	AV	11,995,000
Water Security, Clean Drinking Water, Coastal and Beach Protection Act of 2002	Water Security, Clean Drinking Water, Coastal and Beach Protection Act of 2002 Finance Committee	AN	135,590,000

School Facilities Bonds. The School Facilities Bonds are being issued to (i) pay certain of the CP Notes, as they mature, and (ii) pay the cost of issuance of the School Facilities Bonds. CP Notes to be refunded with the proceeds of the School Facilities Bonds will be repaid within 90 days after the issuance of the School Facilities Bonds so as to constitute a "current refunding" for federal tax purposes. The School Facilities Bonds are issued as two (2) separate series under two (2) separate Bond Acts, each authorized by the voters, as set forth below.

A portion of the proceeds of the School Facilities Bonds, after payment of certain costs of issuance, will be used to finance capital facilities or other voter-approved costs for public purposes, including public primary and secondary education facilities. Such proceeds may only be used for the aforementioned purposes and may not be borrowed for cash flow management or budgetary purposes.

Bond Act	Finance Committee	Series Designation	Amount ($)
Kindergarten-University Public Education Facilities Bond Act of 2004	State School Building Finance Committee	BG	36,760,000
Kindergarten-University Public Education Facilities Bond Act of 2006	State School Building Finance Committee	AN	197,955,000

Refunding Bonds. The Refunding Bonds are being issued to (i) current refund certain of the State's general obligation bonds for debt service savings, and (ii) pay certain costs of issuance of the Refunding Bonds. The Refunding Bonds are issued as thirty-two (32) separate series under fourteen (14) separate Bond Acts, each authorized by the voters, as set forth below.

A portion of the proceeds of the Refunding Bonds, after payment of certain costs of issuance, will be used to current refund bonds which were issued to finance or refinance capital facilities or other voter-approved costs for public purposes, including parks and recreation, clean water and clean air; safe drinking water; public primary, secondary, community college and university education facilities; transportation; water security, water quality, water supply and river, coastal and beach protection; seismic retrofit, pursuant to the Bond Acts identified below.

Bond Act	Finance Committee	Series Designation	Amount ($)
1990 School Facilities Bond Act	State School Building Finance Committee	AG	50,000
California Clean Water, Clean Air, Safe Neighborhood Parks, and Coastal Protection Act of 2002	California Clean Water, Clean Air, Safe Neighborhood Parks, and Coastal Protection Act Finance Committee	AJ	1,330,000
California Clean Water, Clean Air, Safe Neighborhood Parks, and Coastal Protection Act of 2002	California Clean Water, Clean Air, Safe Neighborhood Parks, and Coastal Protection Act Finance Committee	AK	23,985,000
Class Size Reduction Kindergarten-University Public Education Facilities Bond Act of 1998	Higher Education Facilities Finance Committee	DI	31,960,000
Class Size Reduction Kindergarten-University Public Education Facilities Bond Act of 1998	Higher Education Facilities Finance Committee	DJ	15,775,000
Class Size Reduction Kindergarten-University Public Education Facilities Bond Act of 1998	Higher Education Facilities Finance Committee	DK	18,610,000
Class Size Reduction Kindergarten-University Public Education Facilities Bond Act of 1998	State School Building Finance Committee	DG	105,835,000
Class Size Reduction Kindergarten-University Public Education Facilities Bond Act of 1998	State School Building Finance Committee	DH	60,370,000
Clean Air and Transportation Improvement Bond Act of 1990	Transportation Improvement Finance Committee	BZ	2,290,000
Clean Air and Transportation Improvement Bond Act of 1990	Transportation Improvement Finance Committee	CA	1,740,000
Higher Education Facilities Bond Act of June 1990	Higher Education Facilities Finance Committee	BA	330,000
Higher Education Facilities Bond Act of June 1992	Higher Education Facilities Finance Committee	BE	360,000
Higher Education Facilities Bond Act of June 1992	Higher Education Facilities Finance Committee	BF	25,000
Kindergarten-University Public Education Facilities Bond Act of 2002	Higher Education Facilities Finance Committee	BW	485,000
Kindergarten-University Public Education Facilities Bond Act of 2002	State School Building Finance Committee	BX	14,115,000
Kindergarten-University Public Education Facilities Bond Act of 2002	State School Building Finance Committee	BY	275,100,000
Public Education Facilities Bond Act of 1996	Higher Education Facilities Finance Committee	CN	2,090,000
Public Education Facilities Bond Act of 1996	State School Building Finance Committee	CL	660,000
Public Education Facilities Bond Act of 1996	State School Building Finance Committee	CM	710,000
Safe Drinking Water, Clean Water, Watershed Protection, and Flood Protection Act	Safe Drinking Water, Clean Water, Watershed Protection, and Flood Protection Finance Committee	BF	3,705,000
Safe Drinking Water, Clean Water, Watershed Protection, and Flood Protection Act	Safe Drinking Water, Clean Water, Watershed Protection, and Flood Protection Finance Committee	BG	1,930,000

Bond Act	Finance Committee	Series Designation	Amount ($)
Safe Neighborhood Parks, Clean Water, Clean Air, and Coastal Protection Bond Act of 2000 (the Villaraigosa-Keeley Act)	Safe Neighborhood Parks, Clean Water, Clean Air, and Coastal Protection (Villaraigosa-Keeley Act) Finance Committee	AW	8,435,000
Safe Neighborhood Parks, Clean Water, Clean Air, and Coastal Protection Bond Act of 2000 (the Villaraigosa-Keeley Act)	Safe Neighborhood Parks, Clean Water, Clean Air, and Coastal Protection (Villaraigosa-Keeley Act) Finance Committee	AX	6,255,000
Safe Neighborhood Parks, Clean Water, Clean Air, and Coastal Protection Bond Act of 2000 (the Villaraigosa-Keeley Act)	Safe Neighborhood Parks, Clean Water, Clean Air, and Coastal Protection (Villaraigosa-Keeley Act) Finance Committee	AY	20,210,000
Safe, Clean, Reliable Water Supply Act	Safe, Clean, Reliable Water Supply Finance Committee	BD	3,245,000
Safe, Clean, Reliable Water Supply Act	Safe, Clean, Reliable Water Supply Finance Committee	BE	3,995,000
Safe, Clean, Reliable Water Supply Act	Safe, Clean, Reliable Water Supply Finance Committee	BF	27,455,000
School Facilities Bond Act of 1992	State School Building Finance Committee	BI	500,000
Seismic Retrofit Bond Act of 1996	Seismic Retrofit Finance Committee	BE	7,715,000
Seismic Retrofit Bond Act of 1996	Seismic Retrofit Finance Committee	BF	10,055,000
Water Security, Clean Drinking Water, Coastal and Beach Protection Act of 2002	Water Security, Clean Drinking Water, Coastal and Beach Protection Act of 2002 Finance Committee	AO	3,040,000
Water Security, Clean Drinking Water, Coastal and Beach Protection Act of 2002	Water Security, Clean Drinking Water, Coastal and Beach Protection Act of 2002 Finance Committee	AP	70,785,000

Redemption

Optional Redemption of Fixed Rate Bonds. The Fixed Rate Bonds maturing after November 1, 2023, are subject to optional redemption prior to their respective stated maturity dates, in whole or in part, in such order of maturity as may be designated by the State Treasurer and by lot within any maturity, on any date on or after November 1, 2023, at a redemption price equal to 100% of the principal amount thereof to be redeemed, plus accrued interest to the date fixed for redemption.

Notice of Redemption. When Fixed Rate Bonds are to be redeemed, the State Treasurer is to give notice of redemption by electronic means only to DTC (not to the Beneficial Owners of the Fixed Rate Bonds) not less than 30 or more than 60 days prior to the date fixed for redemption. DTC, in turn, is to send the notice of redemption to its Participants for distribution to the Beneficial Owners of the Fixed Rate Bonds. See APPENDIX B—"THE BOOK–ENTRY ONLY SYSTEM." The notice from the State Treasurer will state, among other things, that the Fixed Rate Bonds or a designated portion thereof (in the case of partial redemption of a Bond) are to be redeemed, the dated date of the Fixed Rate Bonds, the date fixed for redemption, the maturities of the Fixed Rate Bonds to be redeemed and the redemption price. The notice will also state that after the date fixed for redemption no further interest will accrue on the principal of any Fixed Rate Bonds called for redemption. The notice of redemption may also state that such redemption may be cancelled in whole or in part by the State Treasurer upon written notice to DTC no later than five Business Days prior to the date fixed for redemption. Notice of redemption will also be provided by mail or electronic means to the MSRB's EMMA website.

Effect of Redemption. Notice of redemption having been duly given as aforesaid, and moneys for payment of the redemption price being held by the State Treasurer, the Fixed Rate Bonds so called for redemption shall, on the redemption date designated in such notice, become due and payable at the redemption price specified in such notice, interest on the Fixed Rate Bonds so called for redemption shall cease to accrue and the holders of said Fixed Rate Bonds shall have no rights in respect thereof except to receive payment of the redemption price thereof (including interest, if any, accrued to the redemption date), without interest accrued on any funds held after the redemption date to pay such redemption price.

PROVISIONS APPLICABLE TO THE MANDATORY PUT BONDS

The following description of certain provisions applicable to the Mandatory Put Bonds should be read in conjunction with the foregoing section "PROVISIONS APPLICABLE TO ALL BONDS" for information on various terms and conditions therein which apply to the Mandatory Put Bonds.

This Official Statement is not intended to provide information with respect to the Mandatory Put Bonds after adjustment of such Bonds to any interest rate period on and after the Purchase Date. Holders and prospective purchasers of the Mandatory Put Bonds should not rely on this Official Statement for information concerning the Mandatory Put Bonds in connection with any adjustment of the interest rate period for such Bonds, but should look solely to the offering document to be provided and used in connection with any such adjustment.

General

The Mandatory Put Bonds are issued pursuant to a Bond Act (see "Identification, Authorization and Purposes of the Mandatory Put Bonds" below), and a resolution adopted by the Highway Safety, Traffic Reduction, Air Quality, and Port Security Committee pursuant to such Bond Act (the "Put Bonds Resolution"). Each Series of Mandatory Put Bonds will initially bear interest at a rate equal to the respective rate per annum shown in "SUMMARY OF THE OFFERING" on the pages immediately following the cover page of this Official Statement from the Date of Delivery of the Bonds to but not including the applicable Mandatory Tender Date. Interest on each Series of Mandatory Put Bonds is payable on June 1 and December 1 in each year, commencing June 1, 2014.

Identification, Authorization and Purposes of the Mandatory Put Bonds

Mandatory Put Bonds. The Mandatory Put Bonds are being issued to (i) fund projects under certain of the Bond Acts identified below, and (ii) pay the cost of issuance of the Mandatory Put Bonds. The Mandatory Put Bonds are issued as two separate series under the Bond Act identified below which was authorized by the voters. Each series within a Series of Mandatory Put Bonds will have identical terms.

A portion of the proceeds of the Mandatory Put Bonds, after payment of certain costs of issuance, will be used to finance or refinance capital facilities or other voter-approved costs for highway safety, traffic reduction, air quality and port security purposes, pursuant to the Bond Act identified below. Such proceeds may only be used for the aforementioned purposes and may not be borrowed for cash flow management or budgetary purposes.

Bond Act	Finance Committee	Series Designation	Amount ($)
Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006	Highway Safety, Traffic Reduction, Air Quality, and Port Security Committee	2013A	225,000,000
Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006	Highway Safety, Traffic Reduction, Air Quality, and Port Security Committee	2013B	225,000,000

Tender Provisions

No Optional Tender. The Mandatory Put Bonds are not subject to optional tender by Bondholders.

Mandatory Tender for Purchase. Each Series of Mandatory Put Bonds is subject to mandatory tender for purchase on any date on or after its First Call Date, including the applicable Mandatory Tender Date, at a purchase price equal to 100% of the principal amount thereof, without premium, plus accrued interest to the applicable Purchase Date. Unless all Bonds of a Series of Mandatory Put Bonds subject to mandatory tender on a Purchase Date, including the applicable Mandatory Tender Date, are purchased on such date, none of such Series of Mandatory Put Bonds will be purchased. In such event the Tender Agent will return all Bonds of such Series of Mandatory Put Bonds to the Holders thereof and such Mandatory Put Bonds will remain outstanding and will bear interest at the then effective interest rate for such Mandatory Put Bonds; provided, however, if a Series of Mandatory Put Bonds is not purchased on the applicable Mandatory Tender Date such Series of Mandatory Put Bonds will on and after such date accrue interest at successively higher interest rates until all Mandatory Put Bonds of such Series are remarketed, redeemed or paid at maturity, see "*Consequences if Mandatory Put Bonds are not Purchased on a Mandatory Tender Date; Notice of Mandatory Tender after a Mandatory Tender Date; Stepped Interest Rate*" below.

If the State does not purchase a Series of Mandatory Put Bonds on a Purchase Date, including the related Mandatory Tender Date, such non-purchase shall not constitute an event of default under the Put Bonds Resolution. See "*—Sources of Funds for Purchase of Mandatory Put Bonds*" below.

Notice of Mandatory Tender for Purchase on or Prior to a Mandatory Tender Date. With respect to a mandatory tender for purchase of a Series of Mandatory Put Bonds on or prior to the applicable Mandatory Tender Date, the State Treasurer will give notice of mandatory tender of such Series of Mandatory Put Bonds by electronic means only to DTC (not to the Beneficial Owners of such Series of Mandatory Put Bonds), at least 30 and not more than 60 days prior to the applicable Purchase Date, which notice will state (1) the interest rate period applicable to such Series of Mandatory Put Bonds from and after the Purchase Date; (2) that such Series of Mandatory Put Bonds will be subject to mandatory tender for purchase and specify the

Purchase Date; (3) the procedures for such mandatory tender for purchase; (4) the purchase price of such Series of Mandatory Put Bonds; and (5) the consequences of a failed remarketing. DTC, in turn, is to send the notice of mandatory tender to its Participants for distribution to the Beneficial Owners of the applicable Series of Mandatory Put Bonds. See APPENDIX B—"THE BOOK–ENTRY ONLY SYSTEM."

Sources of Funds for Purchase of Mandatory Put Bonds. Tendered Mandatory Put Bonds of a Series will be purchased solely with proceeds from the remarketing or refunding thereof. The Put Bonds Resolution requires the State Treasurer to appoint a remarketing agent (the "Remarketing Agent") no later than 60 days prior to the applicable Mandatory Tender Date for each Series of Mandatory Put Bonds and the State Treasurer will direct such Remarketing Agent to use its best efforts to remarket the applicable Series of Mandatory Put Bonds into the interest rate period designated by the State Treasurer.

There is no source of moneys to pay the purchase price of a Series of Mandatory Put Bonds upon mandatory tender thereof on a Purchase Date, including the applicable Mandatory Tender Date, other than proceeds of remarketing or refunding thereof. If the State does not purchase a Series of Mandatory Put Bonds on the related Mandatory Tender Date, such non-purchase shall not constitute an event of default. There is no liquidity facility in place for the payment of the purchase price of a Series of Mandatory Put Bonds on a Purchase Date, including the applicable Mandatory Tender Date.

Consequences if Mandatory Put Bonds are not Purchased on a Mandatory Tender Date; Notice of Mandatory Tender after a Mandatory Tender Date; Stepped Interest Rate. If on the applicable Mandatory Tender Date, all Bonds of the Series of Mandatory Put Bonds subject to tender on such date are not purchased, then none of such Series of Mandatory Put Bonds will be purchased and all tendered Mandatory Put Bonds of such Series shall be returned to their respective Holders. In such event, such Mandatory Put Bonds will bear interest at the Stepped Rate (defined below) from the applicable Mandatory Tender Date until all such Mandatory Put Bonds are remarketed, redeemed or paid at maturity.

On each Business Day following a Mandatory Tender Date on which all of the Bonds of a Series of Mandatory Put Bonds were not purchased, the Remarketing Agent shall continue to use its best efforts to remarket the applicable Series of the Mandatory Put Bonds into such interest rate period as directed by the State Treasurer. Once the Remarketing Agent has advised the State Treasurer that it has a good faith belief that it is able to remarket all of the applicable Series of Mandatory Put Bonds into the then directed interest rate period, the State Treasurer will establish a new mandatory tender date and will give notice by electronic means only to DTC (not to the Beneficial Owners of such Series of Mandatory Put Bonds) not later than five (5) Business Days prior to the date on which such Series of Mandatory Put Bonds are to be purchased, which notice will state (1) the interest rate period applicable to such Series of Mandatory Put Bonds from and after the Purchase Date; (2) that such Series of Mandatory Put Bonds will be subject to mandatory tender for purchase and specify the Purchase Date; (3) the procedures for such mandatory tender for purchase; (4) the purchase price of such Series of Mandatory Put Bonds; and (5) the consequences of a failed remarketing. DTC, in turn, is to send notice of mandatory tender to its Participants for distribution to the Beneficial Owners of the applicable Series of Mandatory Put Bonds. See APPENDIX B—"THE BOOK–ENTRY ONLY SYSTEM."

Mandatory Put Bonds that have not been purchased or redeemed on the applicable Mandatory Tender Date shall bear interest from and including such Mandatory Tender Date until the date such Mandatory Put Bonds are remarketed, redeemed or paid at maturity at the respective rates per annum for the applicable period of days as set forth in the following table (the "Stepped Rate"):

For the Period (in Days) on and after the Mandatory Tender Date	**Interest Rate Per Annum**
0 to 89 days	6%
90 days to 179 days	8%
180 days and thereafter	10%

Delivery of Tendered Mandatory Put Bonds. With respect to any Book-Entry Bond, delivery of such Bond to U.S. Bank, National Association, as tender agent, or any successor tender agent (the "Tender Agent") in connection with the mandatory tender of Mandatory Put Bonds on a Purchase Date, including the applicable Mandatory Tender Date will be effected by the making of, or the irrevocable authorization to make, appropriate entries on the books of DTC or any DTC Participant to reflect the transfer of the beneficial ownership interest in such Bond to the account of the Tender Agent, or to the account of a DTC Participant acting on behalf of the Tender Agent.

Mandatory Put Bonds Deemed Purchased. If moneys sufficient to pay the purchase price of Mandatory Put Bonds to be purchased pursuant to the Put Bonds Resolution will be held by the Tender Agent on the date and at the time such Bonds are to be purchased, such Bonds will be deemed to have been purchased for all purposes of the Put Bonds Resolution, irrespective of whether or not such Bonds will have been delivered to the Tender Agent, and neither the former holder of such Mandatory Put Bonds nor any other person will have any claim thereon, under the Put Bonds Resolution or otherwise, for any amount other than the purchase price thereof.

In the event of non-delivery of any Mandatory Put Bond to be purchased pursuant to the Put Bonds Resolution, the Tender Agent will segregate and hold uninvested the moneys for the purchase price of such Mandatory Put Bonds in trust, without liability for interest thereon, for the benefit of the former holders of such Mandatory Put Bonds, who will, except as provided in the following sentence, thereafter be restricted exclusively to such moneys for the satisfaction of any claim for the purchase price of such Mandatory Put Bonds. Any moneys which the Tender Agent will segregate and hold in trust for the payment of the purchase price of any Mandatory Put Bond and remaining unclaimed for two (2) years after the date of purchase will be paid, upon the State Treasurer's written request, to the State Treasurer. After the payment of such unclaimed moneys to the State Treasurer, the former holder of such Bond will look only to the State Treasurer for the payment thereof.

Redemption

Optional Redemption. Each Series of Mandatory Put Bonds is subject to optional redemption, in whole or in part, on any date commencing on the applicable First Call Date (the June 1 immediately preceding the related Mandatory Tender Date), at a redemption price equal to 100% of the principal amount of the Mandatory Put Bonds redeemed, without premium, plus accrued interest to the date of redemption.

Notice of Redemption. When a Series of Mandatory Put Bonds are to be redeemed, the State Treasurer is to give notice of redemption by electronic means only to DTC (not to the Beneficial Owners of such Series of Mandatory Put Bonds) not less than 30 or more than 60 days prior to the date fixed for redemption, provided, however, that if such redemption occurs after the Mandatory Tender Date for such Series of Mandatory Put Bonds, such notice is to be provided not less than five (5) Business Days prior to the date fixed for redemption. DTC, in turn, is to send the notice of redemption to its Participants for distribution to the Beneficial Owners of the applicable Series of Mandatory Put Bonds. See APPENDIX B—"THE BOOK–ENTRY ONLY SYSTEM." The notice from the State Treasurer will state, among other things, that such Mandatory Put Bonds or a designated portion thereof (in the case of partial redemption of a Mandatory Put Bond) are to be redeemed, the date of issue of the Mandatory Put Bonds, the date fixed for redemption, the maturities of the Mandatory Put Bonds to be redeemed, the source of funds to be used for such redemption and the redemption price. The notice will also state that if such notice is not rescinded, any conditions to redemption set forth in such notice are satisfied and moneys for payment of the redemption price are being held by the State Treasurer or any paying agent appointed by the Treasurer, as applicable, on the applicable date fixed for redemption, the interest on the Mandatory Put Bonds designated for redemption shall cease to accrue from and after the date fixed for redemption.

The State Treasurer may provide conditional notice of optional redemption, which may be conditioned on the receipt of moneys to carry out the redemption or any other event. In addition, the Treasurer may, no later than five (5) Business Days prior to the date fixed for optional redemption, rescind any notice of such optional redemption by notice given in the same manner and to the same persons as the notice being rescinded.

Effect of Redemption. Notice of redemption having been duly given as aforesaid, and moneys for payment of the redemption price being held by the State Treasurer, the Mandatory Put Bonds so called for redemption shall, on the redemption date designated in such notice, become due and payable at the redemption price specified in such notice, interest on the Mandatory Put Bonds so called for redemption shall cease to accrue and the holders of said Mandatory Put Bonds shall have no rights in respect thereof except to receive payment of the redemption price thereof (including interest, if any, accrued to the redemption date), without interest accrued on any funds held after the redemption date to pay such redemption price.

LEGAL MATTERS

The opinion of the Honorable Kamala D. Harris, Attorney General of the State (the "Attorney General"), approving the validity of the Bonds will be delivered concurrently with the issuance of the Bonds. The opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the State ("Bond Counsel"), approving the validity of the Bonds and addressing certain tax matters will be delivered concurrently with the issuance of the Bonds. The proposed forms of such legal opinions are set forth in APPENDIX D—"PROPOSED FORMS OF LEGAL OPINIONS." Orrick, Herrington & Sutcliffe LLP and Schiff Hardin LLP are serving as Co-Disclosure Counsel to the State with respect to the Bonds ("Bond Co-Disclosure Counsel"). Orrick, Herrington & Sutcliffe LLP and Stradling Yocca Carlson and Rauth, a Professional Corporation, are serving as Co-Disclosure Counsel to the State regarding Appendix A ("Appendix A Co-Disclosure Counsel"). Certain legal matters will be passed upon for the Underwriters by their counsel, Hawkins Delafield & Wood LLP ("Underwriters' Counsel").

The Attorney General, Bond Counsel, Bond Co-Disclosure Counsel and Appendix A Co-Disclosure Counsel and Underwriters' Counsel, respectively, undertake no responsibility for the accuracy, completeness or fairness of this Official Statement.

TAX MATTERS

In the opinion of Bond Counsel, based upon an analysis of existing laws, regulations, rulings, and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Code and is exempt from State of California personal income taxes. In the further opinion of Bond Counsel, interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating federal corporate alternative minimum taxable income. A complete copy of the proposed form of opinion of Bond Counsel is set forth in APPENDIX D—"PROPOSED FORMS OF LEGAL OPINIONS."

To the extent the issue price of any maturity of the Bonds is less than the amount to be paid at maturity of such Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Bonds), the difference constitutes "original issue discount," the accrual of which, to the extent properly allocable to each Beneficial Owner thereof, is treated as interest on the Bonds which is excluded from gross income for federal income tax purposes and exempt from State of California personal income taxes. For this purpose, the issue price of a particular maturity of the Bonds is the first price at which a substantial amount of such maturity of the Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the Bonds accrues daily over the term to maturity of such Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Bonds. Beneficial Owners of the Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Bonds with original issue discount, including the treatment of Beneficial Owners who do not purchase such Bonds in the original offering to the public at the first price at which a substantial amount of such Bonds is sold to the public.

Bonds purchased, whether at original issuance or otherwise, for an amount higher than their principal amount payable at maturity (or, in some cases, at their earlier call date) ("Premium Bonds") will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of bonds, like the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received, and a Beneficial Owner's basis in a Premium Bond, will be reduced by the amount of amortizable bond premium properly allocable to such Beneficial Owner. Beneficial Owners of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Bonds. The State has made certain representations and covenanted to comply with certain restrictions, conditions, and requirements designed to ensure that interest on the Bonds will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest on the Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Bonds. The opinion of Bond Counsel assumes the accuracy of these representations and compliance with these covenants. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken), or events occurring (or not occurring), or any other matters coming to Bond Counsel's attention after the date of issuance of the Bonds may adversely affect the value of, or the tax status of interest on, the Bonds. Accordingly, the opinion of Bond Counsel is not intended to, and may not, be relied upon in connection with any such actions, events or matters.

Although Bond Counsel is of the opinion that interest on the Bonds is excluded from gross income for federal income tax purposes and is exempt from State of California personal income taxes, the ownership or disposition of, or the accrual or receipt of interest on, the Bonds may otherwise affect a Beneficial Owner's federal, state, or local tax liability. The nature and extent of these other tax consequences depends upon the particular tax status of the Beneficial Owner or the Beneficial Owner's other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences.

Current and future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the Bonds to be subject, directly or indirectly, in whole or in part, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent Beneficial Owners from realizing the full current benefit of the tax status of such interest. As one example, the Obama Administration's proposed 2014 budget includes a legislative proposal which, for tax years beginning after December 31, 2013, would limit the exclusion from gross income of interest on obligations like the Bonds to some extent for taxpayers who are individuals and whose income is subject to higher marginal income tax rates. The introduction or enactment of any such legislative proposals or clarification of the Code or court decisions may also affect, perhaps significantly, the market price for, or marketability of, the Bonds. Prospective purchasers of the Bonds should consult their own tax advisors regarding the potential impact of any pending or proposed federal or state tax legislation, regulations or litigation, as to which Bond Counsel is expected to express no opinion.

The opinion of Bond Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Bond Counsel's judgment as to the proper treatment of the Bonds for federal income tax purposes. It is not binding on the Internal Revenue Service ("IRS") or the courts. Furthermore, Bond Counsel cannot give and has not given any opinion or assurance about the future activities of the State, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The State has covenanted, however, to comply with the requirements of the Code.

Bond Counsel's engagement with respect to the Bonds ends with the issuance of the Bonds, and, unless separately engaged, Bond Counsel is not obligated to defend the State or the Beneficial Owners regarding the tax-exempt status of the Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than the State and their appointed counsel, including the Beneficial Owners, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions with which the State legitimately disagrees, may not be practicable. Any action of the IRS, including but not limited to selection of the Bonds for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues, may affect the market price for, or the marketability of, the Bonds, and may cause the State or the Beneficial Owners to incur significant expense.

LITIGATION

There is not now pending (with service of process on the State having been accomplished) or threatened any litigation seeking to restrain or enjoin the sale, issuance, execution or delivery of the Bonds or challenging the validity of the Bonds or any proceedings of the State taken with respect to the foregoing.

At any given time, including the present, there are numerous civil actions pending against the State, which could, if determined adversely to the State, affect the State's expenditures and, in some cases, its revenues and cash flow. While there can be no assurances as to the ultimate outcome and fiscal impact of such litigation, the State believes that it is unlikely that the outcome of any such litigation could adversely affect the ability of the State to pay the principal of and interest on the Bonds when due. See APPENDIX A—"THE STATE OF CALIFORNIA—LITIGATION."

UNDERWRITING

The Bonds are being purchased by an underwriting group comprised of the underwriters listed on the cover page hereof (the "Underwriters"). Citigroup Global Markets Inc. and J.P. Morgan Securities LLC are acting as the representatives of the Underwriters. The Underwriters have agreed to purchase the Fixed Rate Bonds for an aggregate purchase price of $1,764,792,955.69 (representing the principal amount of the Bonds of $1,647,490,000.00, plus net original issue premium of $123,366,582.25, less an Underwriters' discount of $6,063,626.56). The Underwriters have agreed to purchase the Mandatory Put Bonds for an aggregate purchase price of $487,470,042.89 (representing the principal amount of the Bonds of $450,000,000.00, plus original issue premium of $38,544,750.00, less an Underwriters' discount of $1,074,707.11). The initial public offering prices of the Bonds may be changed from time to time by the Underwriters.

The bond purchase contract relating to the Fixed Rate Bonds (the "Fixed Rate Bond Purchase Contract") provides that (i) the Underwriters will purchase all of the Fixed Rate Bonds if any of the Fixed Rate Bonds are purchased and (ii) the obligation to make such purchase is subject to certain terms and conditions set forth in such purchase contract including, among others, the approval of certain legal matters by counsel.

The bond purchase contract relating to the Mandatory Put Bonds provides that (i) the Underwriters will purchase all of the Mandatory Put Bonds if any of the Mandatory Put Bonds are purchased and (ii) the obligation to make such purchase is subject to certain terms and conditions set forth in such purchase contract including, among others, the approval of certain legal matters by counsel.

The sale of the Fixed Rate Bonds is not contingent upon the successful sale of the Mandatory Put Bonds. Similarly, the sale of the Mandatory Put Bonds is not contingent upon the sale of the Fixed Rate Bonds.

Several of the Underwriters have provided letters to the State Treasurer relating to their distribution practices or other affiliations for inclusion in this Official Statement, which are set forth in Appendix E. The State does not guarantee the accuracy or completeness of the information contained in such letters and the information therein is not to be construed as a representation of the State or of any Underwriter other than the Underwriter providing such representation.

FINANCIAL STATEMENTS

The Audited Basic Financial Statements of the State of California for the Year Ended June 30, 2012 (the "Financial Statements") are included as APPENDIX G to this Official Statement. These Financial Statements have been examined by the State Auditor to the extent indicated in her report.

Certain unaudited financial information for the periods July 1, 2012 through June 30, 2013 and July 1, 2013 through September 30, 2013 are included as Exhibits 1 and 2, respectively, to Appendix A to this Official Statement. See APPENDIX A—"THE STATE OF CALIFORNIA—FINANCIAL STATEMENTS."

RATINGS

All of the Bonds have received ratings of "A1" by Moody's Investors Service, "A" by Standard & Poor's Rating Services and "A" by Fitch Ratings. An explanation of the significance and status of such credit ratings may be obtained from the rating agencies furnishing the same. There is no assurance that such ratings will continue for any given period of time or that they will not be revised or withdrawn entirely by any such rating agencies if, in their respective judgments, circumstances so warrant. Any revision or withdrawal of a credit rating could have an effect on the market prices and marketability of the Bonds. The State cannot predict the timing or impact of future actions by the rating agencies.

VERIFICATION OF MATHEMATICAL COMPUTATIONS

Upon delivery of the Bonds, Grant Thornton LLP, independent certified public accountants, will deliver a report that the firm has verified the mathematical accuracy of certain computations relating to the adequacy of the deposits to be made to the Refunding Escrow Fund with respect to the Refunded Bonds to pay the amounts required as described under "PROVISIONS APPLICABLE TO ALL BONDS—Plan of Refunding" above.

FINANCIAL ADVISOR

Public Resources Advisory Group is serving as the Financial Advisor to the State in connection with the issuance of the Bonds. The Financial Advisor has not been engaged, nor has it undertaken, to make an independent verification or assume responsibility for the accuracy, completeness or fairness of the information contained in this Official Statement.

ADDITIONAL INFORMATION

The purpose of this Official Statement is to supply information to prospective buyers of the Bonds. Quotations from and summaries and explanations of the Bonds and of statutes or documents are brief summaries thereof which do not purport to be complete or definitive, and reference is made to such statutes or documents for full and complete statements of the contents thereof.

Any statements in this Official Statement involving estimates, forecasts or matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the State and the purchasers or holders of any of the Bonds.

Questions regarding this Official Statement and the issuance of these securities may be addressed to the Office of the Honorable Bill Lockyer, Treasurer of the State of California, 915 Capitol Mall, Room 110, Sacramento, California 95814, telephone (800) 900-3873.

STATE OF CALIFORNIA
BILL LOCKYER
Treasurer of the State of California

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EXHIBIT 1
REFUNDED BONDS

In the following table, "Prior Bonds" refers to an issue of State general obligation bonds consisting of multiple series under separate Bond Acts, having a dated date as shown in the first column of the table. The amounts in the column "Principal Amount to be Refunded" represent the respective amounts of such Prior Bonds that constitute Refunded Bonds. Any difference between the amounts in the column "Aggregate Principal Amount Outstanding" and the column "Principal Amount to be Refunded" represents Prior Bonds not selected by the State Treasurer to be refunded with proceeds of the Refunding Bonds, which amount of Prior Bonds will remain outstanding after the redemption date.

The following table is a list of the Refunded Bonds to be refunded with proceeds of the Refunding Bonds.

Dated Date of Prior Bonds	CUSIP† (1306)	Principal Amount to be Refunded ($)	Aggregate Principal Amount Outstanding ($)	Maturity Date	Interest Rate (%)	Redemption Date	Redemption Price (%)
11/01/2001	2T2Y9	230,000	880,000	11/01/2030	5.000	12/05/2013	100
11/01/2001	2T2Z6	115,000	245,000	11/01/2031	5.200	12/05/2013	100
05/01/2003	3CAX8	35,000	35,000	02/01/2021	4.875	12/05/2013	100
05/01/2003	3CBB5	37,540,000	45,165,000	02/01/2032	5.000	12/05/2013	100
05/01/2003	3BX56	14,155,000	29,105,000	02/01/2033	5.000	12/05/2013	100
07/01/2003	3CBU3	5,000	15,000	02/01/2021	4.600	12/05/2013	100
07/01/2003	3CBZ2	7,260,000	7,260,000	02/01/2025	4.800	12/05/2013	100
07/01/2003	3CCM0	26,850,000	26,895,000	02/01/2026	4.400	12/05/2013	100
07/01/2003	3CCN8	18,665,000	18,675,000	02/01/2028	4.800	12/05/2013	100
07/01/2003	3CCS7	106,090,000	106,090,000	02/01/2028	5.250	12/05/2013	100
07/01/2003	3CCP3	27,255,000	27,255,000	02/01/2029	5.000	12/05/2013	100
07/01/2003	3CCT5	25,000	52,575,000	02/01/2033	5.000	12/05/2013	100
11/01/2003	3CCX6	24,040,000	24,040,000	11/01/2033	5.500	12/05/2013	100
02/01/2004	3BTZ5	2,740,000	2,740,000	02/01/2015	3.500	02/01/2014	100
02/01/2004	3BUA8	4,500,000	4,500,000	02/01/2015	5.000	02/01/2014	100
02/01/2004	3BUB6	850,000	850,000	02/01/2016	3.700	02/01/2014	100
02/01/2004	3BUC4	2,770,000	2,770,000	02/01/2016	5.000	02/01/2014	100
02/01/2004	3BUD2	1,130,000	1,130,000	02/01/2017	3.750	02/01/2014	100
02/01/2004	3BUE0	225,000	225,000	02/01/2018	3.875	02/01/2014	100
02/01/2004	3BUF7	4,865,000	4,865,000	02/01/2019	4.000	02/01/2014	100
02/01/2004	2PPB2	14,670,000	14,670,000	02/01/2020	4.600	02/01/2014	100
02/01/2004	3BUG5	39,490,000	39,490,000	02/01/2020	5.000	02/01/2014	100
02/01/2004	2PPD8	4,200,000	4,200,000	02/01/2021	4.700	02/01/2014	100
02/01/2004	2PPE6	61,345,000	61,345,000	02/01/2021	5.000	02/01/2014	100
02/01/2004	2PPF3	4,995,000	4,995,000	02/01/2022	4.750	02/01/2014	100
02/01/2004	2PPG1	63,995,000	63,995,000	02/01/2022	5.000	02/01/2014	100
02/01/2004	2PPH9	17,990,000	17,990,000	02/01/2023	4.750	02/01/2014	100
02/01/2004	2PPJ5	54,620,000	54,620,000	02/01/2023	5.000	02/01/2014	100
02/01/2004	2PPK2	76,420,000	76,420,000	02/01/2024	4.750	02/01/2014	100

† Copyright 2013, American Bankers Association. CUSIP® is a registered trademark of the American Bankers Association. CUSIP data herein is provided by the CUSIP Service Bureau, managed on behalf of the American Bankers Association by Standard & Poor's. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services Bureau. CUSIP numbers have been assigned by an independent company not affiliated with the State and are included solely for the convenience of the registered owners of the applicable Bonds. Neither the State nor the Underwriters are responsible for the selection or uses of these CUSIP numbers, and no representation is made as to their correctness on the applicable Bonds or as included herein. The CUSIP number for a specific maturity is subject to being changed after the issuance of the Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of certain maturities of the Bonds.

Dated Date of Prior Bonds	CUSIP† (1306)	Principal Amount to be Refunded ($)	Aggregate Principal Amount Outstanding ($)	Maturity Date	Interest Rate (%)	Redemption Date	Redemption Price (%)
02/01/2004	2PPL0	22,065,000	22,065,000	02/01/2025	5.000	02/01/2014	100
02/01/2004	2PPM8	58,180,000	58,180,000	02/01/2025	5.125	02/01/2014	100
02/01/2004	2PPN6	14,900,000	14,900,000	02/01/2026	5.000	02/01/2014	100
02/01/2004	2PPP1	69,355,000	69,355,000	02/01/2026	5.125	02/01/2014	100
		781,570,000					

APPENDIX A

THE STATE OF CALIFORNIA

NOTE: Since the date of the Preliminary Official Statement, certain information in Appendix A has been updated, shown in *italics* on the following pages: A-8, A-15, A-16, A-18, A-80, A-142, A-143 and A-148.

October 22, 2013

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INTRODUCTION TO
THE STATE OF CALIFORNIA AND APPENDIX A

APPENDIX A is the part of the Official Statement that provides investors with information concerning the State of California. This Introduction is intended to give readers a very brief overview of the main topics covered in APPENDIX A. Investors are advised to read the entire Official Statement, including APPENDIX A, to obtain information essential to making an informed investment decision. See "Certain Defined Terms" at the end of this section for certain defined terms used in this APPENDIX A.

State Financial Condition

During the recent recession, which officially ended in 2009, the state experienced the most significant economic downturn since the Great Depression of the 1930s. As a result, state tax revenues declined precipitously, resulting in large budget gaps and occasional cash shortfalls in the period from 2008 through 2011.

In 2011, the state faced $20 billion in expected annual gaps between its revenues and spending for the ensuing several years. With the significant spending cuts enacted over the past two years (fiscal years 2011-12 and 2012-13) and new temporary revenues provided by the passage of Proposition 30, the forecast as of enactment of the fiscal year 2013-14 budget projected that the state ended fiscal year 2012-13 with a positive reserve of $254 million, and that it would have a positive reserve of approximately $1.1 billion at June 30, 2014. Future updates will reflect recent legislative actions such as enactment by the Legislature and the Governor in September 2013 of a bill to appropriate an additional $315 million to the Department of Corrections and Rehabilitation in response to a court-ordered requirement to further reduce the prison population. Further, the state's budget is projected to remain balanced within the projection period ending in fiscal year 2016-17. The latest forecast projects continued modest growth in California's economy.

Despite the recent significant budgetary improvements, there remain a number of major risks and pressures that threaten the state's financial condition, including the need to repay billions of dollars of obligations which were deferred to balance budgets during the economic downturn. See "DEFERRED OBLIGATIONS" and "CURRENT STATE BUDGET – Budget Risks." In addition, the state's revenues (particularly the personal income tax) can be volatile and correlates to overall economic conditions. There can be no assurances that the state will not face fiscal stress and cash pressures again, or that other impacts of the current economic situation will not materially adversely affect the financial condition of the state.

State Revenues, Expenditures and Cash Management

The state receives revenues from taxes, fees and other sources, the most significant of which are the personal income tax, sales and use tax, and corporation tax (which collectively constitute over 90 percent of total General Fund revenues and transfers). The state expends money on a variety of programs and services. Significant elements of state expenditures include education (both kindergarten through twelfth grade ("K-12") and higher education), health and human services, and correctional programs. For a discussion of the sources and uses of state funds, see "STATE FINANCES."

The 2013 Budget Act and related legislation (the "2013-14 Budget") provide for a multi-year General Fund plan that is balanced. For the current fiscal year it appropriates $96.3 billion in expenditures, and projects $97.1 billion in revenues, and a $1.1 billion reserve by the end of fiscal year 2013-14. The 2013-14 Budget projects the state ended fiscal year 2012-13 with a reserve of $254 million, the first positive ending reserve balance since the 2008 Budget Act when fiscal year 2007-08 ended with a positive reserve. Notably, also, expenditures in fiscal year 2012-13 included an estimated $7.3 billion in repayments of deferred budgetary obligations from prior years including a one-time repayment of a $1.9 billion prior budgetary loan in 2009 from local governments. See "CURRENT STATE BUDGET" and "DEFERRED OBLIGATIONS."

The state manages its cash flow requirements during the fiscal year primarily with a combination of external borrowing and internal borrowing by the General Fund from over 700 special funds. Since June 2008, the General Fund has typically ended each fiscal year with a net borrowing from these special funds. As of June 30, 2013, the General Fund owed $2.435 billion to these special funds and other state funds from internal borrowing for cash management purposes (compared to almost $9.593 billion owed at June 30, 2012 and $8.165 billion at June 30, 2011). See "STATE FINANCES – Inter-Fund Borrowings."

General Fund

The moneys of the state are segregated into the General Fund and over 1,000 other funds, including special, bond and other funds. The General Fund consists of revenues received by the State Treasury and not required by law to be credited to any other fund, as well as earnings from the investment of state moneys not allocable to another fund. The General Fund is the principal operating fund for the majority of governmental activities and is the depository of most of the major tax revenue sources of the state. For additional financial data relating to the General Fund, see the State Controller's unaudited reports of General Fund cash receipts and disbursements attached to this APPENDIX A as EXHIBIT 1 and EXHIBIT 2 and the audited financial statements in APPENDIX G to this Official Statement. See "STATE FINANCES" and "FINANCIAL STATEMENTS."

The state Constitution specifies that an annual budget shall be proposed by the Governor by January 10 of each year for the next fiscal year (the "Governor's Budget"). Under state law, the annual proposed Governor's Budget cannot provide for projected expenditures in excess of projected resources for the ensuing fiscal year. State law also requires the Governor to update the Governor's Budget projections and budgetary proposals by May 14 of each year (the "May Revision"). The May Revision is normally the basis for final negotiations between the Governor and Legislature to reach agreement on appropriations and other legislation to fund state government for the ensuing fiscal year (the "Budget Act"). The state Constitution calls for adoption of a balanced Budget Act by a majority vote of each House of the Legislature (the vote requirement had been two-thirds prior to 2011) by June 15 of each year. The Governor has 12 calendar days to either sign or veto the enrolled budget.

Over the years, a number of laws and constitutional amendments have been enacted, often through voter initiatives, which have made it more difficult for the state to raise taxes, restricted the use of the General Fund or special fund revenues, or otherwise limited the Legislature and the Governor's discretion in enacting budgets. See "THE BUDGET PROCESS – Constraints on the Budget Process."

State Indebtedness and Other Obligations

As of September 1, 2013, the state had outstanding obligations payable principally from the state's General Fund or from lease payments paid from the operating budget of the respective lessees, which operating budgets are primarily, but not exclusively, derived from the General Fund, consisting of $74.0 billion principal amount of general obligation bonds and $11.8 billion of lease-revenue bonds. As of September 1, 2013, there was approximately $29.67 billion of authorized and unissued long-term voter-approved general obligation bonds payable principally from the General Fund and approximately $6.87 billion of authorized and unissued lease revenue bonds. See "STATE INDEBTEDNESS AND OTHER OBLIGATIONS – Future Issuance Plans; General Fund Debt Ratio."

Certain state agencies and authorities issue revenue obligations for which the General Fund has no liability. Revenue bonds represent obligations payable from state revenue-producing enterprises and projects, which are not payable from the General Fund, and conduit obligations payable only from revenues paid by local governments or private users of facilities financed by the revenue bonds.

California has always paid when due the principal of and interest on all its debts, including general obligation bonds, general obligation commercial paper notes, lease-revenue obligations and short term obligations, including revenue anticipation notes ("RANs") and revenue anticipation warrants ("RAWs"). Detailed information regarding the state's long-term debt appears in the sections "STATE INDEBTEDNESS AND OTHER OBLIGATIONS" and "STATE DEBT TABLES."

Deferred Obligations

In addition to the bonds and other obligations described in the preceding paragraphs, as part of budget solutions in prior fiscal years the state engaged in budgetary actions which created pressures or repayment obligations upon the General Fund in future years. Over a number of years, the state adopted budget solutions for a fiscal year by deferring certain required payments (including Proposition 98 payments to schools, Medi-Cal reimbursements, state payrolls and payments to the state pension fund) from that fiscal year into the next year; ultimately these deferrals are being repeated year after year until paid. In addition, the General Fund is the ultimate source of repayment of deficit bonds ("ERBs"), and is obligated for certain legislatively-approved interfund borrowings, reimbursement of borrowings from state and local governments, reimbursements to local governments and school districts for the costs of state mandates placed on those entities under state laws, settle-up payments for Proposition 98, payments to employees for compensated absences, costs for self insurance, and future payment of interest owed on borrowings from the federal government for unemployment insurance payments. (In some cases, the Legislature has the ability to modify, further extend the timing of or even cancel the repayment of some of these obligations.) See "DEFERRED OBLIGATIONS," including Table 7.

As part of the 2013 Budget Act, the state continues to pay down inter-year deferrals. By the end of fiscal year 2012-13, the total amount of budgetary borrowing and deferrals was projected to be $26.9 billion (reflecting a reduction of $7.3 billion during the fiscal year). The 2013 Budget Act includes further reductions in deferred obligations of about $2.58 billion in fiscal year 2013-14. The Administration projects that all but approximately $4.7 billion of this outstanding budgetary borrowing and deferrals would be repaid by the end of fiscal year 2016-17.

The interfund budgetary borrowings are scheduled to be repaid over a number of years. These longer-term budgetary borrowings from special funds do not include short-term interfund borrowings (also called "special fund borrowings") for cash management purposes. See "CASH MANAGEMENT" for more information on cash deferrals and special fund borrowings. See also "STATE INDEBTEDNESS AND OTHER OBLIGATIONS – Indirect, Nonpublic or Contingent Obligations."

As of the 2013-14 Budget, in addition to the Proposition 98 budgetary deferrals and settle-up payments referred to above (and set forth in Table 7), the General Fund is obligated to repay school and community college districts for past underfunding which is permitted under Proposition 98 ("maintenance factor"). The Department of Finance estimates that the total outstanding balance at the end of fiscal year 2012-13 for the Proposition 98 maintenance factor would be $6.6 billion. The outstanding balance at the end of fiscal year 2013-14 is projected to be $9.6 billion, reflecting a year-over-year increase in the Proposition 98 maintenance factor balance due to growth factors and the calculation of the Proposition 98 funding level in 2013-14. The Proposition 98 maintenance factor payments will be repaid pursuant to the constitutional repayment formula in future years when state revenues increase. See "STATE FINANCES – Proposition 98 and K-14 Funding."

State Pension Funds and Retiree Health Care Costs

The two main state pension funds have sustained substantial investment losses in recent years and face large unfunded future liabilities. On September 27, 2013, the June 30, 2012 Actuarial Valuation was released by the CalPERS Board and showed an accrued unfunded liability allocable to state employees (excluding judges and elected officials) as of June 30, 2012, of $28.2 billion on an actuarial value of assets ("AVA") basis and $45.5 billion on a market value of assets ("MVA") basis. The California State Teachers' Retirement System ("CalSTRS") reported the unfunded accrued liability of its Defined Benefit Plan as of June 30, 2012 at $71.0 billion on an AVA basis (an increase of $6.5 billion from the June 30, 2011 valuation), and $80.4 billion on an MVA basis (an increase of $12 billion from the June 30, 2011 valuation).

General Fund contributions to CalPERS and CalSTRS are estimated to be approximately $2.3 billion and $1.4 billion, respectively, for fiscal year 2013-14. The combined contributions, which include contributions for California State University ("CSU"), represent about 3.8 percent of all General Fund expenditures in fiscal year 2013-14. See "CURRENT STATE BUDGET." There can be no assurances that the state's annual required contributions to CalPERS and

CalSTRS will not significantly increase in the future. The actual amount of any increases will depend on a variety of factors, including but not limited to investment returns, actuarial assumptions, experience, retirement benefit adjustments, and, in the case of CalSTRS, statutory changes in contributions. Recent action by the Board of CalPERS to revise amortization and smoothing policies is expected to result in more rapid increases in state retirement contributions commencing in fiscal year 2015-16. See "PENSION TRUSTS–Prospective Funding Status; Future Contributions."

The state also provides postemployment health care and dental benefits to state employees and their spouses and dependents (when applicable) and utilizes a "pay-as-you-go" funding policy. These are sometimes referred to as Other Post Employments Benefits or ("OPEB"). As reported in the state's OPEB Actuarial Valuation Report, the state has an Unfunded Actuarial Accrued Liability relating to state retirees' other postemployment benefits which was estimated at $63.84 billion as of June 30, 2012 (as compared to $62.14 billion estimated as of June 30, 2011). See "STATE FINANCES – Retiree Health Care Costs."

Financial Statements

APPENDIX G to this Official Statement, which is incorporated into this APPENDIX A, contains the Audited Basic Financial Statements of the state for the year ended June 30, 2012, together with certain information required by governmental accounting and financial reporting standards to be included in the Financial Statements, including a "Management's Discussion and Analysis" that describes and analyzes the financial position of the state and provides an overview of the state's activities for the fiscal year ended June 30, 2012. See "FINANCIAL STATEMENTS."

In addition, EXHIBIT 1 and EXHIBIT 2 to APPENDIX A contains the State Controller's unaudited reports of General Fund cash receipts and disbursements for the period July 1, 2012 through June 30, 2013 and for the period July 1, 2013 through September 30, 2013, respectively.

Population and Economy of the State

The State of California is by far the most populous state in the nation, nearly 50 percent larger than the second-ranked state according to the 2010 U.S. Census. The 2012 estimate of California's population is 37.8 million residents, which is 12 percent of the total United States population.

California's economy, the largest among the 50 states and one of the largest and most diverse in the world, has major components in high technology, trade, entertainment, agriculture, manufacturing, government, tourism, construction and services. The relative proportion of the various components of the California economy closely resembles the make-up of the national economy.

The California economy is experiencing a gradual and broadening recovery. Continued growth in the high-technology sector, international trade, and tourism are being supplemented by better residential construction and real estate conditions. Fiscally strapped local governments remain a drag on the recovery.

Demographic and economic statistical information and a discussion of economic assumptions are included in this APPENDIX A under "CURRENT STATE BUDGET – Economic Assumptions Underlying the Forecast for the 2013-14 Budget" and "ECONOMY AND POPULATION."

Certain Defined Terms

The following terms and abbreviations are used in this APPENDIX A:

"Administration" means the Governor's Office and those individuals, departments, and offices reporting to it (including the Department of Finance).

"2011 Budget Act" means the Budget Act for fiscal year 2011-12 adopted on June 30, 2011, together with related budget legislation.

"2012-13 Governor's Budget" means the Governor's Proposed Budget for fiscal year 2012-13 released on January 5, 2012.

"2012-13 May Revision" means the May Revision of the 2012-13 Governor's Budget released on May 14, 2012.

"2012 Budget Act" means the Budget Act for fiscal year 2012-13, adopted on June 27, 2012.

"2012-13 Budget" means the 2012 Budget Act plus related legislation to implement the budget.

"2013-14 Governor's Budget" means the Governor's Proposed Budget for fiscal year 2013-14 released on January 10, 2013.

"2013-14 May Revision" means the May Revision of the 2013-14 Governor's Budget released on May 14, 2013.

"2013 Budget Act" means the Budget Act for fiscal year 2013-14, adopted on June 27, 2013.

"2013-14 Budget" means the 2013 Budget Act plus related legislation to implement the budget.

"BSA" means the Budget Stabilization Account created under Proposition 58. See "STATE FINANCES – Budget Reserves."

"ERBs" means Economic Recovery Bonds of the state issued pursuant to Proposition 57. See "STATE INDEBTEDNESS AND OTHER OBLIGATIONS – Economic Recovery Bonds."

"EXHIBIT 1" means the State Controller's Unaudited Statement of General Fund Cash Receipts and Disbursements for the period from July 1, 2012 through June 30, 2013 as attached to this APPENDIX A as EXHIBIT 1.

"EXHIBIT 2" means the State Controller's Unaudited Statement of General Fund Cash Receipts and Disbursements for the period from July 1, 2013 through September 30, 2013 as attached to this APPENDIX A as EXHIBIT 2.

"Fiscal emergency special session" means a special session of the Legislature called by the Governor to respond to a fiscal emergency as authorized by Proposition 58.

"LAO" means the Legislative Analyst's Office, an entity of the State Legislature.

"Proposition 30" means The Schools and Local Public Safety Protection Act of 2012, an initiative measure which was approved by the voters in the November 2012 statewide general election ballot. See "STATE FINANCES – Sources of Tax Revenue."

"Proposition 39" means the California Clean Energy Jobs Act, an initiative measure which was approved by the voters in the November 2012 statewide general election ballot. See "STATE FINANCES – Sources of Tax Revenue."

"SB 105" means Senate Bill 105 (Chapter 310, Statutes of 2013), providing additional appropriations in fiscal year 2013-14 to address a court-ordered reduction of the prisoner population in state prisons.

"SFEU" means the Special Fund for Economic Uncertainties, created pursuant to Government Code Section 16418.

Reference to the "state" as a noun or adjective means the State of California, following the practice of the Department of Finance.

RECENT DEVELOPMENTS

The following significant developments have occurred since the previous state Appendix A released in September 2013.

2013 Budget Act. On June 27, 2013, the Governor signed the budget act for fiscal year 2013-14, and on this and subsequent dates, signed other related bills which together comprise the 2013-14 Budget. At the time of budget enactment, the 2013-14 Budget projected, based on the various assumptions and proposals it contained, that the state would end fiscal year 2013-14 with a $1.1 billion reserve at June 30, 2014. That point-in-time reserve will be updated as part of the 2014-15 budget development process. Future updates will reflect recent legislative actions such as enactment by the Legislature and the Governor in September 2013 of a bill *(SB 105)* to appropriate an additional $315 million to the Department of Corrections and Rehabilitation in response to a court-ordered requirement to further reduce the prison population. See "CURRENT STATE BUDGET."

Recent Tax Receipts. The Department of Finance reported that, based on agency cash receipts, tax receipts for June 2013 were up $1.137 billion, or 9.5 percent, above the 2013 Budget Act forecast. The increase was comprised of personal income tax receipts which were up $581 million, sales and use tax receipts which were up $180 million, and corporation tax receipts which were up $387 million. Insurance Gross Premiums Tax receipts were down $122 million.

For the fiscal year ended June 30, 2013, total receipts were $2.099 billion, or 2.1 percent, above forecast.

On October 16, 2013, the Department of Finance released its October Finance Bulletin containing its report of September revenues. Total revenues for September were $392 million, or 5.0 percent, above the 2013 Budget Act forecast of $7.8 billion. Relative to forecast, personal income tax receipts were up $458 million and sales and use tax receipts were up $170 million. Corporation tax receipts were down $119 million and insurance tax receipts were down $93 million. For fiscal year 2013-14 to date, receipts are $136 million, or 0.7 percent, above forecast. Personal income tax receipts make up the majority of this gain. The October Finance Bulletin is available on the Department of Finance website. Although cash receipts from taxes *through September* came in higher than forecast, it is difficult to extrapolate from just these *three* months how the actual budgetary revenue for fiscal year 2013-14 might diverge from the 2013 Budget Act forecast. In January 2014, the 2014-15 Governor's Budget revenue forecast will incorporate the actual cash receipts *through September*, along with substantial additional cash and economic information that will be available by that time.

Information from the Department of Finance concerning monthly receipts of "agency cash" may differ from the State Controller's reports of cash receipts for the same periods because of timing differences in the recording of in-transit items. In addition, individual monthly cash receipts early in the fiscal year may not be indicative of the outcome of revenue results for the full fiscal year. Updated revenue estimates will be made later in the fall of 2013 as part of preparation of the 2014-15 Governor's Budget to be released in January 2014.

Court Ordered Release of State Inmates. As part of a long-standing lawsuit on mental and medical healthcare in prisons, on June 20, 2013, a federal court issued a comprehensive order requiring the state to implement a plan to: increase medical and elderly parole; slow-down the return of certain prisoners housed out-of-state; expand the use of good time credits, prospectively and retroactively, to all prisoners; and release prisoners as needed to meet the court-ordered population ceiling by December 31, 2013. The state defendants requested a stay of *the order and filed an appeal of the order with the United States Supreme Court. The requests for a stay and the appeal have been denied.*

On September 12, 2013, Governor Brown signed into law SB 105, which appropriates $315 million to be used in different ways depending on whether the current December 31st deadline remains in place. On September 16, 2013, the State requested an extension of the December 31, 2013 deadline described above.

On September 24, 2013, the three-judge court provided an extension to January 27, 2014 for the state to comply with the 137.5% prison population cap. The Department of Finance submitted to the Legislature a report on October 1, 2013, stating that the 27 day extension is not expected to materially change the level of resources necessary to obtain the capacity authorized by SB 105. *On October 21, 2013, the three-judge court provided an additional extension of 28 days, changing the population cap deadline to February 24, 2014.*

See "STATE FINANCES – California Department of Corrections and Rehabilitation."

Pension Fund Investment Results. On July 15, 2013, CalPERS reported a 12.5 percent return on investments for the 12 months that ended June 30, 2013, and CalSTRS reported a 13.8 percent return on investments for the same period. See "PENSION TRUSTS – CalPERS – *Investment Policy; Investment Returns*" and "– CalSTRS – *Investment Policy; Investment Returns*."

Reform of Enterprise Zones. Chapter 69, Statutes of 2013 (AB 93), further amended by Chapter 70, Statutes of 2013 (SB 90), repealed provisions in current law related to economic development areas and created in its place a new program of job creation and economic development incentives. These two bills institute an economic development program which includes a sales tax exemption, a hiring credit, and a GO-Biz incentive fund to provide tax credits. See "STATE FINANCES – Local Governments – Economic Development and Job Creation."

Collective Bargaining. The state agreed to a new memorandum of understanding ("MOU") with 16 of the state's 21 bargaining units. The union membership and the Legislature ratified these MOUs, and the Governor signed them. In addition, the state agreed with the California Association of Highway Patrolmen on an addendum to their existing MOU, which was ratified and approved by the Governor. See "OVERVIEW OF STATE GOVERNMENT -- Employee Relations."

CURRENT STATE BUDGET

The 2013-14 Budget, including the 2013 Budget Act which was enacted on June 27, 2013, provides a multi-year General Fund plan that is balanced. For the current fiscal year, at the time of budget enactment, it projected a $1.1 billion reserve by year end, and continues to pay down budgetary debt from past years. For the first time in several years, corrective measures were not necessary to avoid a year-end deficit in the fiscal year just ended. On September 12, 2013, the Governor signed SB 105, appropriating an additional $315 million during fiscal year 2013-14 to the Department of Corrections and Rehabilitation in response to a court-ordered requirement to further reduce the prison population. See "STATE FINANCES – California Department of Corrections and Rehabilitation."

General Fund revenues and transfers for fiscal year 2013-14 are projected at $97.1 billion, a decrease of $1.1 billion or 1.1 percent compared with revised estimates for fiscal year 2012-13. General Fund expenditures for fiscal year 2013-14 are projected at $96.3 billion, an increase of $0.6 billion or 0.6 percent compared with revised estimates for fiscal year 2012-13. It should be noted that revenues, expenditures and reserve estimates are updated following the end of the fiscal year; therefore, these estimates are subject to change.

The 2013-14 Budget builds a $1.1 billion reserve principally by using the following steps which reduce General Fund expenditures: suspending four newly identified state mandates ($111 million), continuing the use of miscellaneous state highway account revenues to pay for transportation bond debt service ($67 million); extending the hospital quality assurance fee ($310 million); extending the gross premiums tax on Medi-Cal managed care plans ($166 million); and applying sales tax on Medi-Cal managed care plans ($305 million). Certain of these actions raise revenues in special funds which offset General Fund costs. Actions taken after enactment of the 2013 Budget Act may affect the final reserve amount. See "– Prison Funding" below.

The 2013-14 Budget has the following significant components by major program area:

Proposition 98 – The 2013-14 Budget provides Proposition 98 funding of $55.3 billion for fiscal year 2013-14, of which $39.1 billion is funded from the General Fund. Proposition 30 was premised on the need to reinvest in education. For the first time since the recession began in 2008, with the passage of Proposition 30, the 2013 Budget Act reinvests in, rather than cuts, education funding. The 2013-14 Budget repays approximately $272 million in deferred payments to fund education programs and increase budget transparency.

In addition to revenues provided by Proposition 30, public schools and community colleges also benefit from the passage of Proposition 39. For fiscal year 2013-14, Proposition 39 raises approximately $928 million in General Fund revenues, which increases the Proposition 98 guarantee level by an estimated $558 million. Of this additional guarantee amount, $456 million is being used to fund energy efficiency related activities in public schools and community colleges. See "STATE FINANCES – Proposition 98 and K-14 Funding."

Higher Education – The 2013-14 Budget includes total funding of $25.4 billion for all major segments of Higher Education, including $13.1 billion from the General Fund and local property taxes for the California Community Colleges. The remaining funding will be provided from state special and bond funds, student tuition and fee revenue, and other sources of income at the University of California, California State University, and the California Community Colleges. The 2013-14 Budget establishes the first-year investment in a multiyear stable funding plan for higher education.

Prior to fiscal year 2013-14, the state separately funded general obligation and lease revenue bond debt service for the University of California's ("UC") capital improvement projects. The 2013-14 Budget includes a permanent shift of these appropriations into UC's budget, and authorizes UC to pledge its General Fund appropriation, within limits, in addition to its other revenue sources, towards the issuance of its revenue bonds to finance its infrastructure needs instead of using proceeds of state general obligation bonds or State Public Works Board ("SPWB") lease revenue bonds. Any new capital expenditures will still be subject to approval by the Administration and the Legislature, with limits on the amount that can be spent on capital expenditures from its General Fund appropriation.

Health and Human Services – The 2013-14 Budget provides for total state funding of $46 billion, including $28.1 billion from the General Fund. The remaining funding will be provided from special and bond funds.

Medi-Cal, the state's Medicaid health care program for low-income families, currently serves one out of every five Californians, and currently receives 16 percent of the General Fund budget. As the state implements its commitment to federal health care reform, these amounts will increase. The 2013 Budget Act includes $195.6 million from the General Fund to begin to pay for the federally required and optional expansion of coverage. See "– Health Care Reform" below.

Prison Funding – The 2013 Budget Act provides for total state funding of $11.2 billion, including $8.9 billion from the General Fund, for the California Department of Corrections and Rehabilitation ("CDCR"). The CDCR total state operations costs are $9.1 billion and the remaining $2.1 billion support prison and jail infrastructure. SB 105, signed into law on September 12, 2013, appropriates an additional $315 million from the General Fund to CDCR in the 2013-14 fiscal year for purposes of complying with the court-ordered reduction in prison population. See "STATE FINANCES – California Department of Corrections and Rehabilitation."

Redevelopment Agencies – As described in "STATE FINANCES - Local Governments," legislation enacted in 2011 eliminated redevelopment agencies ("RDAs") and replaced them with locally organized successor agencies tasked with retiring the former RDAs' outstanding debts and other legal obligations. Elimination of RDAs will provide additional property tax funding for education, by capturing the RDA tax increment over and above the amounts needed to service existing debts of the RDAs. As of the 2013 Budget Act, the elimination of RDAs is projected to offset $1.5 billion of Proposition 98 costs in fiscal year 2013-14, of which $824 million is from property taxes which will be distributed to local school districts, and $707 million is from distribution of excess RDA cash.

Other Revenues and Transfers – The Administration regularly monitors the needs of special funds to ensure that their purposes are not hindered by loans to the General Fund, and may defer (or accelerate) the repayments of such loans based on its review of the needs of the special funds. The 2013-14 Budget reflects a delay in repayment of approximately $1 billion of loans scheduled for repayment in fiscal year 2013-14 (as projected in the 2012 Budget Act). Additionally, the 2013 Budget Act authorizes a $500 million loan to the General Fund from the Greenhouse Gas Reduction Fund (Cap and Trade). Both of these actions are reflected in the calculation of Deferred Obligations during fiscal year 2013-14. See "CURRENT STATE BUDGET – Cap and Trade Program."

Health Care Reform – With the coming implementation of the federal Affordable Care Act ("ACA"), health care costs will be an increasingly important element of the state budget. The 2013-14 Budget includes $195.6 million for costs relating to implementation of the ACA. General Fund net costs of expanded eligibility and enhanced benefits under health care reform are estimated to increase to approximately $700 million in fiscal years 2014-15 and 2015-16 and they are included in the multi-year projection. Actual costs could be materially higher, as the program is implemented. For more detailed information about the state's plans for implementation of the ACA. See "STATE FINANCES – Health Programs – Health Care Reform."

Unemployment Insurance Interest Repayment – For the last two fiscal years, the state has internally loaned money from special funds to pay the interest on money borrowed from the federal government to fund unemployment insurance payments. In fiscal year 2013-14, the interest payment of $261.5 million will be paid from the General Fund. (The General Fund is not liable for repayment of the principal of the federal loan.) See "STATE FINANCES – Unemployment Insurance."

The following table summarizes the 2012 Budget Act and the 2013 Budget Act:

TABLE 1
General Fund Budget Summary

(Dollars in Millions)

	As of 2012 Budget Act	As of 2013 Budget Act	
	Fiscal Year 2012-13	Fiscal Year 2012-13	Fiscal Year 2013-14
Prior Year Balance	$ (2,882)	$ (1,658)	$ 872
Revenues and Transfers	95,887	98,195	97,098
Total Resources Available	93,005	96,537	97,970
Non-Proposition 98 Expenditures	54,534	55,211	57,226
Proposition 98 Expenditures	36,804	40,454	39,055
Total Expenditures	91,338	95,665	96,281
Fund Balance	1,667	872	1,689
Budget Reserves:			
Reserve for Liquidation of Encumbrances	719	618	618
Special Fund for Economic Uncertainties	948	254	1,071

Source: State of California, Department of Finance.

The following charts summarize the principal components of the 2013 Budget Act, as of its adoption.

In the chart below showing General Fund Expenditures, the state's expenditures for contributions to the pension funds and for debt service on bonds are not shown separately, but are included within the applicable departmental/functional costs. The state's contributions to CalPERS and CalSTRS in fiscal year 2013-14 are a combined $3.7 billion, or 3.8 percent of total expenditures from the General Fund. The net debt service costs on general obligation bonds and lease-revenue bonds paid by rental payments from the General Fund total $5.693 billion, or 5.86 percent of total expenditures. These debt service costs are net of reimbursement from various special funds (e.g., vehicle weight fees offsetting costs of transportation bonds) and subsidy payments from the federal government for taxable Build America Bonds. See "STATE INDEBTEDNESS AND OTHER OBLIGATIONS – Build America Bonds."

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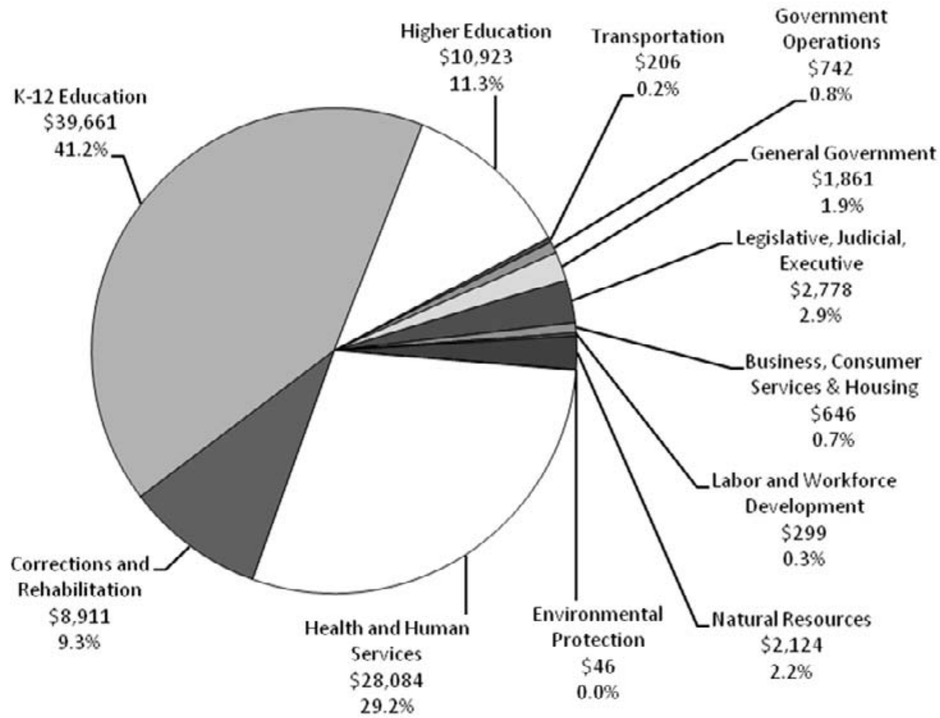
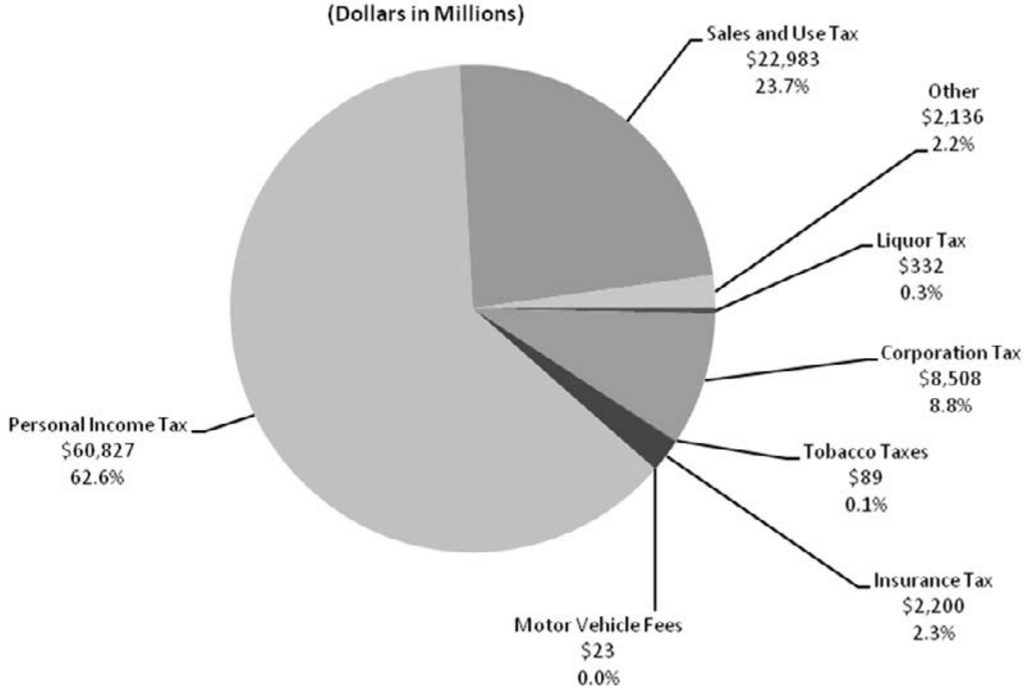
2013-14
General Fund Expenditures
(Dollars in Millions)



2013-14
General Fund Revenues and Transfers
(Dollars in Millions)



Development of Revenue Estimates

Development of the forecast for the major General Fund revenues begins with a forecast of national economic activity prepared by an independent economic forecasting firm. The Department of Finance's Economic Research Unit, under the direction of the Chief Economist, adjusts the national forecast based on the Department of Finance's economic outlook. The national economic forecast is used to develop a forecast of similar indicators for California activity.

After finalizing the forecasts of major national and California economic indicators, revenue estimates are generated using revenue forecasting models developed and maintained by the Department of Finance. With each forecast, adjustments are made for any legislative, judicial, or administrative changes, as well as for recent cash flow results. The forecast is updated twice a year and released with the Governor's Budget by January 10 and the May Revision by May 14.

National Economy. The national economy continued to recover at a modest pace between November 2012, when the economic forecast for the 2013-14 Governor's Budget was constructed, and April 2013, when the economic forecast for the 2013-14 May Revision was developed. Various economic indicators suggest that the national economy experienced a gradual expansion in 2012. However, as 2012 came to a close, uncertainty was building over domestic fiscal policies and global economic developments that tempered business investment. The effects of Hurricane Sandy also softened economic growth at the end of 2012.

The recovery is expected to be somewhat slower than projected in the November 2012 forecast. The economic forecast developed in November 2012 assumed that the federal income tax rate for households earning more than $250,000 per year would return to pre-tax cut levels in 2013 and that payroll tax rates would not be raised at the beginning of 2013. Ultimately, the American Taxpayer Relief Act allowed income tax rates to rise for individuals earning more than $400,000 and couples earning more than $450,000. It also did not extend the temporary payroll tax cut, so that payroll tax rates were restored to the full amount as of January 1, 2013. The determination of the federal government to cut spending in the near term ("sequestration") has also lowered overall demand.

Following an annual growth rate of 1.1 percent in the first quarter of 2013, output of the national economy (Real Gross Domestic Product) grew by 2.5 percent in the second quarter of 2013 – the ninth consecutive quarter of growth. Inventory investment, residential investment, and private fixed investment were the largest contributors to this growth. A decline in federal defense spending slowed economic growth in the first half of 2013. Retail sales grew 6.2 percent in 2011, 5.2 percent in 2012 and 4.5 percent during the first eight months of 2013 compared to the same months of 2012. These numbers reflect the new national accounts methodology used by the U.S. Bureau of Economic Analysis.

The national unemployment rate declined gradually and unevenly from the middle of 2011 through the first eight months of 2013, to 7.3 percent in August. Nonfarm payroll employment expanded at a modest pace from 2011 through the first eight months of 2013.

Home building has been gradually improving but is still relatively weak. New home construction increased modestly in 2011 and then accelerated sharply in 2012. While still at a subdued level, housing starts were up 25 percent during the first half of 2013 compared to the same period in 2012. Home prices in most metropolitan areas were improving in the early months of 2013.

Investment by businesses in equipment and software expanded throughout 2010 and 2011. However, the pace of expansion slowed during 2012 and in the first quarter of 2013.

U.S. exports of goods were up 1.3 percent during the first seven months of 2013 compared to the same period in 2012, led by consumer goods and automobiles and parts.

California Economy. Statistics coming from the California economy are painting a picture of a gradual and broadening recovery. Continued growth in the high-technology sector, international trade, and tourism are being supplemented by better residential construction and real estate conditions. Fiscally strapped local governments remain a drag on the recovery.

Personal income increased in thirteen of the fifteen quarters through the second quarter of 2013, with decreases only in the fourth quarter of 2011 and the first quarter of 2013. The decrease in early 2013 was partially due to the expiration of the federal payroll tax holiday. These numbers also reflect the revised methodology implemented by the U.S. Bureau of Economic Analysis for the national accounts. Although the reported levels of personal income and gross national product will change *as a result of the revised methodology*, these changes merely reflect *more accurate* statistics about the underlying state of the economy. As such, the changes will not have any impact on revenue. In the longer run, the more accurate economic data could lead to more accurate revenue forecasts.

California's nonfarm payroll jobs grew by 334,500 between December 2011 and December 2012, or by 27,900 jobs per month on average. During the first eight months of 2013, payroll jobs grew by 139,700, or by 17,463 jobs per month on average. The state unemployment rate reached a high of 12.4 percent in late 2010. The rate improved thereafter, falling to *8.9 percent* in *August* 2013. In comparison, the national unemployment rate was *7.3 percent* in *August* 2013.

After hitting a low of close to 200,000 units (seasonally-adjusted and annualized) in the middle of 2007, sales of existing single-family homes have rebounded to above 400,000 units annually. With limited inventories of homes for sale, existing home prices accelerated in the latter half of 2012. Home prices continued to climb in 2013 reaching levels not seen in more than five years. The median price of existing, single-family homes sold in August 2013 was $441,330, an increase of $104,270 from January 2013, and almost 30 percent higher than August 2012. However, this remains 24 percent below the pre-recession peak.

The pace of home building accelerated sharply during the first half of 2013. California issued 58,000 residential building permits in 2012, 23.1 percent more than were issued in 2011. During the first eight months of 2013, the pace of new home permits rose 62 percent over the same period in 2012. However, the August annualized rate of 85,553 was still only a fraction of the 210,000 permits issued in 2005.

The number of California homes going into foreclosure dropped in the first quarter of 2013 to 18,567 before increasing in the second quarter to 25,747. This is well below the peak of 135,431 in the first quarter of 2009, but the level was likely lower due in part to the new state foreclosure laws (the "Homeowner Bill of Rights") which took effect at the beginning of calendar year 2013. However, the rate of foreclosures had been declining before that, down to 38,212 in the fourth quarter of 2012.

After growing 19 percent in 2010 and 11 percent in 2011, made-in-California export growth slowed to 1.6 percent in 2012 and dropped 0.2 percent during the first seven months of 2013 over the same period in 2012 based on slower growth in most leading commodity categories and a reduction in computer and electronic products exports.

As in the rest of the nation, consumer spending in California rebounded in 2011 with growing vehicle sales playing a significant role. Taxable retail sales grew 9.1 percent in 2011 and 7.2 percent in 2012. New motor vehicle registrations in 2012 were up over 25 percent from 2011.

The California economy is expected to continue making steady progress. Industry employment is forecast to expand 2.1 percent and 2.4 percent in 2013 and 2014, respectively, and 2.5 percent growth is projected for 2015. Personal income is projected to grow 2.2 percent in 2013, 5.7 percent in 2014 and 5.3 percent in 2015.

Continuing uncertainty about the effects of federal policy actions and weak global growth are the most significant known risks at this point. Economic growth in Europe has slowed, which is adversely affecting U.S. exports. California's exposure to this risk, though, is less than the nation's as a whole. Pacific Rim economies, Japan and China in particular, are much more important to the California economy than are European economies. Another risk is that federal policy developments could further slow national economic growth. *The federal government shutdown for 16 days in early October 2013 is likely to have had a negative economic impact, but the exact scope is not known. Such an event may occur again during the current fiscal year. There may also be another period of uncertainty about the extension of the U.S. Treasury's authority to issue debt, which has recently been extended to early 2014.*

Economic Assumptions Underlying Forecast for the 2013 Budget Act

The revenue and expenditure assumptions utilized in connection with the 2013-14 May Revision Forecast are based upon certain projections of the performance of the California, national, and global economies in calendar years 2013 and 2014. These projections are set forth in the table below:

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TABLE 2
Selected National And California Economic Data

	2012 (Actual)	2013 (Projected)	2014 (Projected)
United States			
Real gross domestic product (2005 CW[1] $, percent change)	2.2	2.0	2.8
Personal income (percent change)	3.6	2.8	5.1
Nonfarm wage and salary employment (millions)	133.7	135.7	137.9
(percent change)	1.7	1.5	1.6
California			
Personal Income ($ billions)	1,730.1[2]	1,767.4	1,867.6
(percent change)	5.2	2.2	5.7
Nonfarm wage and salary employment (thousands)	14,387.3	14,682.4	15,040.9
(percent change)	2.0	2.1	2.4
Unemployment rate (percent)	10.5	9.4	8.6
Housing units authorized (thousands)	57.8	82.2	121.4
(percent change)	23.7	42.1	47.7
New auto registrations (thousands)	1,352.3	1,441.3	1,542.9
(percent change)	15.2	6.6	7.0
Total taxable sales ($ billions)	556.8	578.5	621.9
(percent change)	7.0	3.9	7.5

(1) CW: Chain Weighted
(2) Estimated until federal Bureau of Economic Analysis' September 2013 Release.

Note: Percentage changes calculated from unrounded data.
Source: State of California, Department of Finance, 2013-14 May Revision Forecast.

Multi-Year Budget Projections

In connection with the enactment of the 2013 Budget Act, the Department of Finance prepared high level multi-year budget projections, as set forth below. The projections are based on a variety of assumptions, including assumptions concerning economic conditions, and state revenues and expenditures.

The year-to-year changes in Revenues and Transfers are driven, in general, by expected continued moderate economic growth and consequent moderate growth in tax revenues. Underlying tax revenue is expected to grow by 1 percent from fiscal year 2012-13 to fiscal year 2013-14, and by 9 percent from fiscal year 2013-14 to fiscal year 2014-15. Both of these growth rates reflect the reduction of fiscal year 2013-14 personal income tax revenue due to the acceleration of income into 2012 as a result of the federal tax landscape in late 2012 and early 2013. For the following two fiscal years, underlying tax revenue is projected to grow at 7 percent and 4 percent. The other main factor explaining the year-to-year growth is the change in the amounts of loan repayment made each year consistent with the projection shown in Table 7 (Deferred Obligations). As indicated above, these projections show that, under the assumptions made, the state would be able to achieve a structural balance (positive "operating surplus") for the next several years, while continuing to reduce Deferred Obligations (discussed in the next section). The reductions in this table are included as increases in expenditures. In the case of loan repayments, they are reductions in revenues and transfers. Actual conditions may differ materially from the assumptions, and there can be no assurances the projections will be achieved.

TABLE 3
General Fund Multi-Year Budget Projection
(Dollars in Millions)

	Fiscal Year				
	2012-13	2013-14	2014-15	2015-16	2016-17
Prior Year Balance	$ (1,658)	$ 872	$ 1,689	$ 1,817	$ 2,537
Revenues and Transfers	98,195	97,098	104,667	110,159	116,101
Total Resources Available	**96,537**	**97,970**	**106,356**	**111,976**	**118,638**
Non-Proposition 98 Expenditures	55,211	57,226	59,116	61,563	66,497
Proposition 98 Expenditures	40,454	39,055	45,423	47,876	48,681
Total Expenditures	**95,665**	**96,281**	**104,539**	**109,439**	**115,178**
Fund Balance	872	1,689	1,817	2,537	3,460
Reserve for Encumbrances	618	618	618	618	618
Total Reserve	**254**	**1,071**	**1,199**	**1,919**	**2,842**
Operating Surplus	2,530	817	128	720	923

Source: State of California, Department of Finance

Budget Risks

The 2013-14 Budget is based on a variety of estimates and assumptions. If actual results differ from those assumptions, the state's financial condition could be adversely or positively affected. There can be no assurance that the financial condition of the state will not be materially and adversely affected by actual conditions or circumstances in fiscal year 2013-14 and beyond.

Budget risks with potential significant General Fund impact for fiscal year 2013-14 include, but may not be limited to, the following:

- The 2013 Budget Act adopted the revenue forecast produced by the Department of Finance. The Legislative Analyst's Office estimated the revenues to be $3.2 billion higher. However, revenues assumed in the 2013 Budget Act for fiscal years 2012-13 and 2013-14 could be less than the amounts projected. For instance, it is not known yet how much of the increased revenues received in fiscal year 2012-13 reflected acceleration into that year of capital gains to avoid higher federal income tax rates, which would reduce revenues attributable to fiscal year 2013-14. In addition, certain tax revenues, particularly personal income taxes, can be volatile and correlate to overall economic conditions. See "STATE FINANCES – Sources of Tax Revenue – Personal Income Tax."
- In addressing its own fiscal and governance challenges, the federal government could shift, or otherwise increase, costs to the state. *The 16 day federal government shutdown in early October 2013 is likely to have had a negative economic impact; however, the scope is still not known. In addition, the federal government only extended the congressionally-approved federal debt limit until early in 2014. The future impact on the state from a failure by Congress to increase the federal debt limit when necessary is unknown, although it is likely to be material.*

- While the 2013 Budget Act projects modest economic growth, the pace of the nation's and state's economic recovery remains uncertain.

- The federal government and the courts have hindered the state's past efforts to reduce spending and could again interfere with the successful implementation of budget actions authorized in fiscal years 2012-13 and 2013-14. The largest single item is $310 million in savings related to the extension of a hospital fee which was approved by legislation enacted in early October 2013. However, the state's ability to utilize this fee is subject to a waiver from the federal government which is still pending.

- Rising health care costs, including costs relating to implementation of the federal Affordable Care Act, could be higher than projected.

- Lawsuits challenging any of the solutions included in prior years' budgets could prevent the state from achieving those solutions. The state may also face costs from other ongoing lawsuits. See "RECENT DEVELOPMENTS – Litigation" and "LITIGATION."

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Summary of State Revenues and Expenditures

The table below presents the actual revenues, expenditures and changes in fund balance for the General Fund for fiscal years 2009-10, 2010-11 and 2011-12, the estimated results for fiscal year 2012-13 and the enacted budgeted amounts for fiscal year 2013-14.

TABLE 4
Statement of Estimated Revenues, Expenditures, and Changes in Fund Balance – General Fund (Budgetary Basis)[(a)]
Fiscal Years 2009-10 through 2013-14

(Dollars in Millions)

	2009-10	2010-11	2011-12	Estimated[(b)] 2012-13	Estimated[(b)] 2013-14
Fund Balance–Beginning of Period	$(4,743.8)	$(4,481.4)	$(2,326.5)	$(1,608.6)	$872.2
Restatements					
Prior Year Adjustment	1,315.8	1,610.0	1,071.7	(49.0)	–
Fund Balance–Beginning of Period, as Restated	**$(3,428.0)**	**$(2,871.4)**	**$(1,254.8)**	**$(1,657.6)**	**$872.2**
Revenues	$86,574.6	$92,122.5	$85,568.5	$96,446.8	$96,766.8
Other Financing Sources					
Transfers from Other Funds	523.5	1,661.5	1,998.6	1,747.7	331.4
Other Additions	102.1	53.2	261.5	–	–
Total Revenues and Other Sources	**$87,200.2**	**$93,837.2**	**$87,828.6**	**$98,194.5**	**$97,098.2**
Expenditures					
State Operations	$24,012.4[(c)]	$26,533.6[(c)]	$23,682.8	$23,994.2[(d)]	$26,255.9[(d)]
Local Assistance	61,953.2[(e)]	65,173.1[(e)]	63,845.2[(e)]	71,506.5	69,853.7
Capital Outlay	1,574.7	139.5	103.1	80.6	88.2
Unclassified	–	–	–	83.4	83.4
Other Uses					
Transfer to Other Funds	713.3	401.6	551.3	–[(f)]	–[(f)]
Total Expenditures and Other Uses	**$88,253.6**	**$92,247.8**	**$88,182.4**	**$95,664.7**	**$96,281.2**
Revenues and Other Sources Over or (Under) Expenditures and Other Uses	$(1,053.4)	1,589.4	(353.8)	$2,529.8	$817.0
Fund Balance					
Deferred Payroll	799.7[(g)]	772.6[(g)]	752.9[(g)]		
Reserved for Encumbrances	770.1	846.6	617.9	$618.1	$618.1
Reserved for Unencumbered Balances of Continuing Appropriations[(h)]	1,010.7	1,009.0	1,685.4	–	–
Unreserved–Undesignated [(i)]	(7,061.9)	(4,954.7)	(4,664.8)	254.1	1,071.1
Fund Balance–End of Period	**$(4,481.4)**	**$(2,326.5)**	**$(1,608.6)**	**$872.2**	**$1,689.2**

(a) These statements have been prepared on a budgetary basis in accordance with state law and some modifications would be necessary in order to comply with generally accepted accounting principles ("GAAP"). The Supplementary Information contained in the state's Audited Basic Financial Statements for the year ended June 30, 2012, attached as APPENDIX G to this Official Statement, contains a description of the differences between the budgetary basis and the GAAP basis of accounting and a reconciliation of the June 30, 2012 fund balance between the two methods. See "FINANCIAL STATEMENTS."

(b) Source: Department of Finance, as of the 2013 Budget Act.

(Footnotes Continued on Following Page)

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[c] The Department of Conservation ("DOC") did not submit the required year-end financial statements to the State Controller's Office for fiscal years 2009-10 and 2010-11 in time to be included in the Budgetary/Legal Basis Annual Report ("BLBAR"). The DOC amounts reported in the BLBAR include the June 30 cash balances, plus accruals, derived from actual activity reported through November 30, 2010 for fiscal year 2009-10 and December 5, 2011 for fiscal year 2010-11.

[d] Includes debt service on general obligation bonds. The estimated amount of debt service is $4.0 billion and $4.9 billion for fiscal years 2012-13 and 2013-14, respectively. These amounts are net of the federal Build America Bonds subsidy and various reimbursements to the General Fund from other funds, totaling approximately $1.1 billion in fiscal year 2012-13 and $1.4 billion in fiscal year 2013-14, to offset debt service costs of certain bonds. (See "STATE INDEBTEDNESS AND OTHER OBLIGATIONS – Capital Facilities Financing – Build America Bonds.") The 2013-14 estimated debt service includes $200 million funded out of the UC's budget to pay debt service costs. Debt service amounts for earlier years are set forth in the table titled "Outstanding State Debt Fiscal Years 2007-08 through 2011-12" under "STATE DEBT TABLES."

[e] In fiscal year 2009-10, Proposition 1A of 2004 was suspended when the Governor declared a fiscal emergency allowing the state to offset local assistance expenditures with $1.9 billion of property tax revenue borrowed from the local governments. The state repaid the obligation, plus interest, in June 2013. In fiscal year 2009-10, $1.7 billion of local property tax revenues were shifted to offset state General Fund costs, and in fiscal year 2010-11 another $350 million were shifted, and in fiscal year 2011-12 another $43 million were shifted.

[f] "Transfer to Other Funds" is included either in the expenditure totals detailed above or as "Transfers from Other Funds."

[g] Deferred Payroll, which began with the June 2010 payroll, is on-going and represents the amount of June payroll expenses deferred to July of the following fiscal year, for all state departments paid through the uniform payroll system. The Department of Finance, pursuant to Government Code Sections 12472.5 and 13302, implements the deferrals of June payroll expenditures for various governmental and nongovernmental cost funds. Deferral amounts for 2012-13 and 2013-14 are not yet available.

[h] For purposes of determining whether the General Fund budget, in any given fiscal year, is in a surplus or deficit condition, see Chapter 1238, Statutes of 1990, amending Government Code Section 13307. As part of the amendment, the unencumbered balances of continuing appropriations which exist when no commitment for expenditure is made should be an item of disclosure, but the amount shall not be deducted from the fund balance. In accordance with Government Code Section 12460, the BLBAR reflects a specific reserve for the encumbered balance for continuing appropriations.

[i] Both actual and estimated amounts include SFEU. The Department of Finance generally includes in its estimates of the SFEU and set aside reserves, if any, the items reported in the table under "Reserved for Unencumbered Balances of Continuing Appropriations," and "Unreserved – Undesignated."

Source: Actual amounts for fiscal years 2009-10 to 2011-12: State of California, Office of the State Controller
Amounts for fiscal years 2012-13 and 2013-14: State of California, Department of Finance.

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The following table contains certain summary information concerning major General Fund revenue sources for an eight-year period:

TABLE 5
General Fund Revenues and Transfers

(Dollars in Thousands)

Fiscal Year	Sales & Use Tax	Personal Income Tax	Corporate Income Tax	Other Revenues and Transfers	Total
2006-07	$27,444,661	$51,971,378	$11,157,898	$4,895,286	$ 95,469,223
2007-08	26,613,264	54,181,857	11,849,097	9,877,663	102,521,881
2008-09	23,753,364	43,375,959	9,535,679	6,107,110	82,772,112
2009-10	26,740,781	44,852,331	9,114,589	6,337,891	87,045,592
2010-11	26,983,000	49,445,469	9,613,594	7,401,213	93,443,276
2011-12	18,658,000[(a)]	54,261,266[(b)(d)]	7,233,000	6,633,378[(c)]	86,785,644
2012-13[(e)]	20,240,000[(d)]	63,901,000[(d)]	7,509,000[(f)]	6,544,512	98,194,512
2013-14[(e)]	22,983,000[(d)]	60,827,000[(d)]	8,508,000[(f)]	4,780,247	97,098,247

(a) Reflects a decrease in the Sales & Use Tax rate from 6 percent to 5 percent (rate was temporarily increased from 5 percent to 6 percent from April 1, 2009 through June 30, 2011) and realignment of revenues related to shifting 1.0625 percent of the Sales & Use Tax rate to the Local Revenue Fund 2011. These two changes decrease General Fund revenues by roughly $10 billion annually.

(b) Reflects the expiration of a temporary 0.25 percent surcharge and the reduced dependent exemption credit for the 2009 and 2010 tax years. These two changes decrease General Fund revenues by an estimated $3.537 billion in fiscal year 2011-12.

(c) Reflects the expiration of a temporary 0.5 percent increase in the vehicle license fee rate (rate was increased from 0.65 percent to 1.15 percent, effective May 19, 2009 through June 30, 2011), decreasing General Fund revenues by an estimated $1.330 billion in fiscal year 2011-12.

(d) Reflects the passage of Proposition 30, The Schools and Local Public Safety Protection Act of 2012, which temporarily increases tax rates on the highest income Californians, and temporarily increases the sales and use tax rate by 0.25 percent. Since higher personal income tax rate applies to income received in 2012, a majority of the expected new revenue for that year is allocated to fiscal year 2011-12, although the cash receipts did not begin occurring until December 2012.

(e) Estimated.

(f) Reflects the passage of Proposition 39, which requires single sales factor apportionment for most multi-state businesses. See "STATE FINANCES – Sources of Tax Revenue – Corporation Tax" for a discussion of recent difficulties in projecting corporation tax receipts.

Source: State of California, Department of Finance.

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Revenue and Expenditure Assumptions

The table below presents the Department of Finance's budget basis statements of major General Fund revenue sources and expenditures by function for fiscal years 2012-13 and 2013-14, as set forth in the 2012-13 and 2013-14 Budgets when they were enacted.

TABLE 6
General Fund Revenue by Sources and Expenditures
Fiscal Years 2012-13 and 2013-14

(Dollars in Millions)

Revenues **Source**	**2012-13 Enacted (as of June 2012)**	**2012-13 Revised (as of June 2013)**	**2013-14 Enacted (as of June 2013)**
Personal Income Tax	$ 60,268	$ 63,901	$ 60,827
Sales and Use Tax	20,605	20,240	22,983
Corporation Tax	8,488	7,509	8,508
Insurance Tax	2,089	2,156	2,200
All Other[a]	4,437	4,389	2,580
Total Revenues and Transfers	$ 95,887	$ 98,195	$ 97,098

Expenditures **Function**	**2012-13 Enacted**	**2012-13 Revised**	**2013-14 Enacted**
Legislative, Judicial and Executive	$ 2,056	2,002	2,778
State and Consumer Services[b]	689	0	0
Business, Transportation & Housing[b]	448	0	0
Business, Consumer Services & Housing[c]	0	217	646
Transportation[c]	0	-54[d]	206
Natural Resources	1,900	2,030	2,124
Environmental Protection	46	47	46
Health and Human Services	26,695	27,000	28,084
Corrections and Rehabilitation	8,887	8,743	8,911
K-12 Education	37,848	41,074	39,661
Higher Education	9,432	9,910	10,923
Labor and Workforce Development	342	345	299
Government Operations[c]	0	661	742
General Government			
Non-Agency Departments	487	469	523
Tax Relief/Local Government	2,531	2,511	421
Statewide Expenditures	-23[e]	710	917
Total Expenditures	$ 91,338	$ 95,665	$ 96,281

[a] Generally consists of transfers and loans, motor vehicle license fees, alcoholic beverage taxes and fees, and various smaller amounts for miscellaneous fees, taxes, royalties, tribal gaming revenues, unclaimed property and other sources.

[b] These agencies were eliminated as part of the Governor's Reorganization Plan 2, effective July 1, 2013. The departments or programs within these agencies have been moved to other agencies.

[c] These agencies were created as part of the Governor's Reorganization Plan 2, effective July 1, 2013. They include departments or programs from the eliminated agencies or other agencies.

[d] The use of certain transportation funds to offset General Fund costs for general obligation bond debt service exceeded other program costs for fiscal year 2012-13 and resulted in a net General Fund savings.

[e] When the 2012-13 Budget was enacted, some significant statewide savings, including $500 million of General Fund cost offset related to Cap and Trade revenues and approximately $400 million for the reduction of employee compensation costs, were credited to state-wide expenditures, which resulted in net negative expenditures for this line item.

Source: State of California, Department of Finance. Figures in this table may differ from the figures in Table 16; see "Note" to Table 16.

Cap and Trade Program

The Cap and Trade program is a key element in the state's climate plan. It sets a statewide limit on the sources of greenhouse gases ("GHG") responsible for 85 percent of California GHG emissions. In fiscal year 2012-13, the California Air Resources Board ("CARB") began auctioning GHG emission allowances as a market-based compliance mechanism authorized by the California Global Warming Solutions Act, Chapter 488, Statutes of 2006 ("AB 32").

CARB conducted three auctions in fiscal year 2012-13, which resulted in $257.3 million in allowance proceeds to the Greenhouse Gas Reduction Fund ("GGR Fund").

The 2013 Budget Act includes as revenues a one-time General Fund loan of $500 million from Cap and Trade auction proceeds generated in fiscal years 2012-13 and 2013-14. The loan will be repaid with interest immediately when needed to meet the future needs of the GGR Fund.

Legal challenges to the authority of CARB to conduct auctions under the state's cap and trade program allege the auction revenues are an unconstitutional tax under the state Constitution. See "LITIGATION – Action Challenging Cap and Trade Program Auctions."

DEFERRED OBLIGATIONS

Despite eliminating the structural deficit in the last two budgets, the state continues to face major long-term challenges and must address the consequences of budget-balancing actions taken in the past. As part of the 2013-14 Budget projection, the Administration prepared a table showing $26.9 billion in "budgetary borrowing" or "deferred obligations" as of June 30, 2013, which consisted of budget solutions adopted over the prior decade which had the effect of pushing costs into the recent and future years. (These obligations are presented in the second column of Table 7 below.) Table 7 represents a point-in-time estimate of what budgetary borrowings were at the end of fiscal year 2010-11, were projected to be at the end of fiscal year 2012-13, and a projection of amounts that would be paid through the end of fiscal year 2016-17. Approximately $7.3 billion of these borrowings were projected to have been repaid during fiscal year 2012-13. The projections are based on a variety of assumptions, including assumptions concerning economic conditions, and state revenues and expenditures. Actual conditions may differ materially from the assumptions, and there can be no assurances the projections will be achieved.

Items listed in Table 7 as "deferrals" or "deferred payments" represent actions taken to move required payments from one fiscal year into the next fiscal year for budgetary savings. (At the end of fiscal year 2012-13 remaining deferrals totaled about $9.6 billion.) These deferrals end up being repeated year after year to avoid having to make a double payment within a fiscal year until they are repaid, and such a double payment occurs. The deferred obligations shown in Table 7 are a portion of Proposition 98 payments to schools and community colleges, certain Medi-Cal reimbursements, one month's state payroll, and the final quarterly payment to the state pension fund. Other budgetary borrowings shown in Table 7 are repayment of the ERBs which financed budget deficits from prior to fiscal year 2003-04, repayment of certain legislatively approved interfund borrowings, reimbursement of borrowings from state funds and local governments, reimbursements to local governments and school districts for the costs of state mandates placed on those entities under state laws, and repayments to school and community college districts of amounts owed under Proposition 98 from recalculation of the guarantee after the end of a fiscal year, referred to in Table 7 as "underfunding of Proposition 98" and referred to elsewhere in this APPENDIX A as "settle-up payments."

The Administration projects that, under the 2013-14 Budget, the state's budget in future years would carry annual operating surpluses (revenues exceeding expenditures). Additionally, a significant amount of the outstanding budgetary borrowing and deferrals shown in Table 7 would be repaid by the end of fiscal year 2016-17.

TABLE 7
Deferred Obligations
2013 Budget Act

(Dollars in Millions)

			Projected Repayments				
	Outstanding (as of end of 2010-11)	**Outstanding (as of end of 2012-13)**	**2013-14**	**2014-15**	**2015-16**	**2016-17**	**Remaining Amount**
Deferred Payments to Schools and Community Colleges	$10,430	$6,436	$272	$3,290	$2,874	$0	$0
Economic Recovery Bonds[a]	7,100	5,150	1,480	1,558	1,664	0	0
Loans from Special Funds	5,100	4,601[b]	696	660	2,167	578	500
Unpaid Costs to Local Governments, Schools and Community Colleges for State Mandates	4,300	4,914	0	0	852	956	3,106
Underfunding of Proposition 98	3,000	2,376[c]	0	410	700	1,266	0
Borrowing from local government (Proposition 1A of 2004)	1,900	0	0	0	0	0	0
Deferred Medi-Cal Costs	1,200	1,999	49	(64)	256	700	1,058
Deferral of State Payroll Costs from June to July	759	718	0	0	0	718	0
Deferred Payments to CalPERS	524	440	0	0	0	440	0
Borrowing from Transportation Funds (Proposition 42)	417	251	83	83	85	0	0
Total	**$34,730**	**$26,885**	**$2,580**	**$5,937**	**$8,598**	**$4,658**	**$4,664**

(a) The annual values reflect the amounts needed to backfill the Proposition 98 budget (rather than the reduction in the outstanding principal amount of Economic Recovery Bonds). The state projects that sufficient amounts pledged to repayment of the Economic Recovery Bonds will be available by the end of fiscal year 2015-16 to pay the Economic Recovery Bonds in full. See "STATE INDEBTEDNESS AND OTHER OBLIGATIONS – Economic Recovery Bonds."

(b) Includes a new loan from the Greenhouse Gas Reduction Fund in the amount of $500 million.

(c) The amount reflects the Proposition 98 settle-up obligations detailed in Table 20, plus the $462 million balance of the settlement agreement in *Williams, et al., v. State of California, et al.*

Source: Department of Finance

In some instances, such as the ERBs, the repayment mechanism over time is included in annual budgets. In other cases, such as the loans from special funds, the repayment mechanism remains within the discretion of the Legislature. It may be noted that the termination of the temporary additional personal income tax rates under Proposition 30 on December 31, 2018 will roughly coincide with the elimination of most of the Deferred Obligations. Furthermore, repayment of the ERBs by the end of fiscal year 2015-16 will coincide with the termination of the additional ¼ cent sales tax enacted by Proposition 30. Assuming continued economic growth and responsible fiscal policies, the Administration believes the state will be able to maintain positive structural fiscal balances past the period of the Proposition 30 temporary taxes.

As stated earlier in this APPENDIX A, the Department of Finance estimates that $7.3 billion of these Deferred Obligation were repaid during fiscal year 2012-13. This consisted of the following items:

- $4.0 billion repayment of deferrals from schools and community colleges
- $1.1 billion in scheduled repayment and prepayment of ERBs
- $2.1 billion in scheduled repayment of Proposition 1A borrowing from local governments
- $400 million in repayment of underfunding from Proposition 98
- $200 million in repayment of unpaid costs to schools and local governments for state mandates
- $100 million in repayment of deferred payments to CalPERS
- Increase of deferrals of Medi-Cal costs of $300 million
- Net increase in loans from special funds of $300 million, with repayments of $200 million offset by a new loan from the Greenhouse Gas Reduction Fund of $500 million

In addition to the budgetary borrowing shown in Table 7, the state faces future obligations to employees for compensated absences, costs for self-insurance, and future payment of interest owed on borrowings from the federal government for unemployment insurance payments. See "STATE FINANCES – Unemployment Insurance" below. Further, in addition to the Proposition 98 deferred payment and underfunding shown in Table 7, there is another obligation owed under Proposition 98 which arises when under the terms of Proposition 98 there is an underfunding, such as a suspension of the guarantee, which is called a "maintenance factor." The Department of Finance estimates that the total outstanding balance of Proposition 98 maintenance factor payments would be $6.6 billion at the end of fiscal year 2012-13. The outstanding balance projected at the end of fiscal year 2013-14 will be $9.6 billion, reflecting a year-over-year increase in the Proposition 98 maintenance factor balance due to growth factors and the calculation of the Proposition 98 funding level in fiscal year 2013-14. The Proposition 98 maintenance factor will be repaid pursuant to the constitutional repayment formula in future years when state revenue increases. See "STATE FINANCES – Proposition 98 and K-14 Funding."

The two main retirement systems managed by state entities, CalPERS and CalSTRS, each have substantial unfunded liabilities. See "PENSION TRUSTS." The state also has a substantial unfunded liability relating to state employee retirees' postemployment healthcare benefits. See "STATE FINANCES – Retiree Health Care Costs."

2012 BUDGET ACT

The 2012 Budget Act

The 2012-13 Budget closed a projected budget gap of \$15.7 billion over the two fiscal years 2011-12 and 2012-13, and projected a \$948 million reserve by June 30, 2013, by enacting a total of \$16.6 billion in solutions (including a combination of expenditure reductions, additional revenues, and other solutions, and assuming passage of Proposition 30). (The ending reserve at June 30, 2013 is now estimated at \$254 million.) General Fund revenues and transfers for fiscal year 2012-13 were projected at \$95.9 billion, an increase of \$9.1 billion compared with fiscal year 2011-12. General Fund expenditures for fiscal year 2012-13 were projected at \$91.3 billion, an increase of \$4.3 billion compared to the prior year. General Fund spending outside of Proposition 98 was projected to decline by \$1.5 billion, or 2.8 percent, excluding a required one-time repayment of \$2.1 billion the state borrowed from local governments in 2009. In approving the 2012 Budget Act, the Governor exercised his line-item veto power to reduce General Fund expenditures by about \$129 million. The 2012 Budget Act also included special fund expenditures of \$39.4 billion and bond fund expenditures of \$11.7 billion. (Certain of the expectations for the 2012 Budget Act have not been fully achieved as described below in " – Fiscal Year 2012-13 Revised General Fund Estimates in the 2013-14 Budget.") See Table 1 above for summary information concerning the estimated fund balance for fiscal year 2012-13 as revised in the 2013-14 Budget.

As enacted, the 2012-13 Budget contained the major General Fund components and budget solutions described below. See " – Fiscal Year 2012-13 Revised General Fund Estimates in the 2013-14 Budget" for revised estimates as of the 2013 Budget.

> Proposition 30 – The Governor sponsored an initiative measure, Proposition 30, which was approved by the voters in the November 2012 election ballot. Proposition 30 placed into the state Constitution the current statutory provisions transferring 1.0625 percent of state sales taxes to local governments to fund the "realignment" program for many services including housing criminal offenders. See "STATE FINANCES – Local Governments – Realigning Services to Local Governments." The second part of this measure provides temporary increases in personal income tax rates for high-income taxpayers and a temporary increase in the state sales tax rate, and specifies that the additional revenues will be placed in the Education Protection Account to support K-14 public schools and community colleges as part of the Proposition 98 guarantee. See "STATE FINANCES – Sources of Tax Revenue."
>
> Proposition 98 – The Proposition 98 guarantee for fiscal year 2012-13 was estimated to be \$53.6 billion, of which \$36.8 billion was an obligation of the General Fund. This funding level assumed passage of Proposition 30, which increased Proposition 98 funding by \$2.9 billion in fiscal year 2012-13. The balance came from local property taxes and redevelopment agency assets. For fiscal year 2012-13, the budget maintained level Proposition 98 programmatic funding for K-12 school districts, repaid \$2.2 billion of deferred payments to schools and community colleges and funded the Quality Education Investment

Act ("QEIA") program within the Proposition 98 guarantee. See "STATE FINANCES – Proposition 98 and K-14 Funding."

K-12 Education – A total of $38.9 billion for K-12 education programs was approved for fiscal year 2012-13, of which $37.8 billion was funded from the General Fund and the Education Protection Account fund. The remaining funds include special and bond funds.

Higher Education – Total state funding was $10.0 billion, including $9.4 billion from the General Fund, for all major segments of Higher Education. The remaining funds include special and bond funds.

Child Care – The 2012-13 Budget reflected total child care savings of $294.3 million in non Proposition 98, resulting in the elimination of 14,000 child care slots. The reductions consist of including center-based services within the state preschool program, making across the board reductions to provider contracts, and suspending statutory cost-of-living adjustments for non-CalWORKs programs.

Health and Human Services – Total funding was $45.5 billion including $26.7 billion from the General Fund, for Health and Human Services programs. The remaining funds include special and bond funds.

Prison Funding – Total funding was $8.9 billion from the General Fund for the California Department of Corrections and Rehabilitation.

Redevelopment Agencies – Chapter 5, Statutes of 2011 ("ABx1 26"), eliminated redevelopment agencies ("RDAs") and replaced them with locally organized successor agencies tasked with retiring the former RDAs' outstanding debts and other legal obligations. RDAs controlled billions of dollars of property tax "increment" generated by new development within redevelopment areas. Elimination of RDAs provided additional property tax funding for education, by capturing the RDA tax increment over and above the amounts needed to service existing debts; this will yield a General Fund savings by reducing the state's General Fund contribution to Proposition 98. ABx1 26 also requires that former RDA cash and real property assets that are not otherwise encumbered or reserved for legally authorized purposes must be liquidated, and the resultant funds distributed to the affected taxing entities in the same manner as property tax revenues. Chapter 26, Statutes of 2012 (AB 1484) extended the deadline by which to complete the appropriate reviews of unencumbered cash assets for distribution to the affected taxing entities from July 2012 to October 2012. The 2012 Budget Act included a total of $3.155 billion from the elimination of RDAs as an offset to Proposition 98 costs. Of this amount, $1.676 billion is from property taxes which will be distributed to local school districts (about $685 million of which is attributable to taxes from fiscal year 2011-12), and $1.479 billion is from distribution of excess RDA cash and liquidation of assets. A large number of lawsuits have been filed concerning the aftermath of the termination of redevelopment agencies. See "STATE BUDGET – Local Governments – Constitutional and Statutory Limitations on Local Governments" and "LITIGATION – Budget Related Litigation – Actions Challenging Statutes Which Reformed California Redevelopment Law."

Cap and Trade – In fiscal year 2012-13, the Air Resources Board began auctioning greenhouse gas ("GHG") emission allowances as a market-based compliance mechanism authorized by the California Global Warming Solutions Act, Chapter 488, Statutes of 2006 ("AB 32"). The auctions generated proceeds to support existing and new efforts to address the causes of GHG emissions. The first allowance auction occurred in November 2012. The allowances will trade on the open market. Proceeds from the Cap and Trade auctions were projected to be approximately $1 billion in fiscal year 2012-13, of which $500 million is budgeted to offset General Fund costs. See "CURRENT STATE BUDGET -- Cap and Trade Program" and "LITIGATION – Action Challenging Cap and Trade Program Auctions."

The 2012-13 Budget recognized the potential risk to the state's fiscal condition if the new revenues contained in Proposition 30 were not implemented by including a "trigger" mechanism to provide certain automatic expenditure reductions. Since Proposition 30 was approved by the voters, the "trigger" mechanism was not implemented.

"Total funding" mentioned above consists of General Fund, special funds, and selected bond funds, and does not include other costs that are not considered costs to run state government, such as federal funds and reimbursements.

Fiscal Year 2012-13 Revised General Fund Estimates in the 2013-14 Budget

The 2013-14 Budget revised various estimates involving the General Fund beginning balance, revenues, and expenditures for fiscal year 2012-13. The 2013-14 Budget projected, based on the various assumptions and proposals it contained, a positive General Fund reserve balance of $254 million for fiscal year 2012-13, compared to the positive balance of $948 million estimated when the 2012-13 budget was enacted. This decrease of $0.7 billion in the General Fund reserve for fiscal year 2012-13 is based on the following (please note that totals may not add because of rounding and that these figures are preliminary estimates subject to adjustment after receipt of additional information concerning revenues and expenditures for the year):

1. Net gain related to activities prior to fiscal year 2012-13 of $1.2 billion. This change in the starting balance is primarily due to the following components:

- $1.1 billion net increase in personal income tax revenue from 2010-11 and prior fiscal years;
- $0.2 billion decrease in corporation tax revenue from 2010-11 and prior fiscal years;

- $0.3 billion decrease in fund balance due to various 2010-11 and prior fiscal year adjustments; and

- $0.6 billion decrease in non-Proposition 98 expenditures in fiscal year 2011-12.

2. General Fund revenues and transfers for fiscal year 2012-13 are projected at a revised $98.2 billion, which is $2.3 billion higher than the estimate of $95.9 billion when the 2012-13 Budget was enacted. The increase is based on the following major factors:

- $3.6 billion increase in personal income tax revenue;

- $0.4 billion decrease in sales and use tax revenue;

- $1.0 billion decrease in corporation tax revenue; and

- $0.1 billion net increase in various other revenues.

3. General Fund expenditures for fiscal year 2012-13 are projected at $95.7 billion, an increase of $4.3 billion compared with the estimate of $91.3 billion when the 2012-13 Budget was enacted. The net increase in expenditures is mainly attributable to the following:

- $3.7 billion increase in Proposition 98 expenditures (which includes a decrease of $1.1 billion in the estimate of RDA funds available to reduce General Fund Proposition 98 expenditures, and a natural increase in property tax revenues of $0.3 billion that applies towards meeting the Proposition 98 minimum guarantee, thus reducing General Fund costs); and

- $0.7 billion increase in non-Proposition 98 expenditures, including a loss of $0.5 billion in budgeted savings for Cap and Trade, and a $0.4 billion increase in Medi-Cal due to unanticipated costs.

CASH MANAGEMENT

Cash Management Tools

General. The majority of the state's General Fund receipts are received in the latter part of the fiscal year. Disbursements from the General Fund occur more evenly throughout the fiscal year. The state's cash management program customarily addresses this timing difference by making use of internal borrowing (see "– Internal Borrowing") and by issuing short-term notes in the capital markets (see "– External Borrowing"). External borrowing is typically done with RANs that are payable not later than the last day of the fiscal year in which they are issued. RANs have been issued in all but one fiscal year since the mid-1980s and have always been paid at maturity. The state also is authorized under certain circumstances to issue RAWs that are payable in the succeeding fiscal year. The state issued RAWs to bridge short-term cash management shortages in 1992, 1993, 1994, 2002 and 2003. See "STATE FINANCES – State Warrants – Reimbursement Warrants" for more information on RAWs.

RANs and RAWs are both payable from any "Unapplied Money" in the General Fund of the state on their maturity date, subject to the prior application of such money in the General Fund to pay Priority Payments. "Priority Payments" consist of: (i) the setting apart of state revenues in support of the public school system and public institutions of higher education (as provided in Section 8 of Article XVI of the state Constitution); (ii) payment of the principal of and interest on general obligation bonds and general obligation commercial paper notes of the state as and when due; (iii) reimbursement from the General Fund to any special fund or account to the extent such reimbursement is legally required to be made to repay borrowings therefrom pursuant to California Government Code Sections 16310 or 16418; and (iv) payment of state employees' wages and benefits, state payments to pension and other state employee benefit trust funds, state Medi-Cal claims, lease payments to support lease-revenue bonds, and any amounts determined by a court of competent jurisdiction to be required by federal law or the state Constitution to be paid with state warrants that can be cashed immediately. See "STATE FINANCES – State Warrants."

The state has employed additional cash management measures during some fiscal years; all of the following techniques were used at one time or another during the last several fiscal years and some of them are expected to be utilized in the current fiscal year:

- The State Controller has delayed certain types of disbursements from the General Fund.

- Legislation was enacted in each of the last several fiscal years increasing the state's internal borrowing capability, and the state has increased the General Fund's internal borrowings. See "STATE FINANCES – Inter-Fund Borrowings."

- Legislation has been enacted deferring some of the state's disbursements until later in the then-current fiscal year, when more cash receipts are expected.

- The issuance of registered warrants (commonly referred to as "IOUs") because of insufficient cash resources (last occurred in 2009). (See "STATE FINANCES – State Warrants" for an explanation of registered warrants.)

Legislation was enacted in fiscal year 2011-12 to increase borrowable resources through creation of the State Agency Investment Fund ("SAIF") to allow state entities whose monies are not required by law to be deposited in the Pooled Money Investment Account ("PMIA"), to make deposits of at least $500 million into this new borrowable fund within the PMIA. The California State University and University of California systems deposited a total of $1.7 billion into the SAIF on September 26, 2011, which remained on deposit until April 2013.

Legislation was enacted in the 2012-13 Budget to establish a Voluntary Investment Fund (the "VIP Fund"), similar to the SAIF, to allow for local governmental entities to make deposits of at least $200 million in the PMIA. The VIP Fund has not been used to date and it is not part of the state's current cash management plans, but it could be utilized in the future if the state faces cash flow shortfalls.

Internal Borrowing. The General Fund is currently authorized by law to borrow for cash management purposes from more than 700 of the state's approximately 1,300 other funds in the State Treasury (the "Special Funds"). Total borrowing from Special Funds must be approved by the Pooled Money Investment Board ("PMIB"). The State Controller submits an authorization request to the PMIB quarterly, based on forecasted available funds and borrowing needs. The Legislature may from time to time adopt legislation establishing additional authority to borrow from Special Funds. On February 3, 2012, the Governor signed SB 95 (Chapter 1, Statutes of 2012, "SB 95"), a statute which clarified that certain transportation funds and other funds were available for short-term cash management borrowing, which provided an estimated $865 million of additional capacity at certain times of the year. The state has historically made extensive use of its internal borrowing capability to provide cash resources to the General Fund. The PMIB has authorized the internal borrowing of up to $21.848 billion for the period ending September 30, 2013.

One fund from which moneys may be borrowed to provide additional cash resources to the General Fund is the BSA, a reserve fund established in 2004 by Proposition 58. However, during fiscal years 2008-09 to 2012-13, there were no funds available in the BSA and none will be available during fiscal year 2013-14. See "STATE FINANCES – Budget Reserves – Budget Stabilization Account (BSA)." The state also may transfer funds into the General Fund from the state's SFEU, which is not a Special Fund. See "STATE FINANCES – Inter-Fund Borrowings" for a further description of this process.

External Borrowing. As noted above, issuance of RANs is a normal part of the state's annual cash management program. The state issued $10 billion of RANs on August 23, 2012 which were all repaid when due. The state issued $5.5 billion of RANs to assist in cash management for fiscal year 2013-14. See "STATE INDEBTEDNESS AND OTHER OBLIGATIONS – Cash Management Borrowings."

Payment Deferrals. From time to time, the Legislature changes by statute the due date for various payments, including those owed to public schools, universities and local governments, until a later date in the fiscal year in order to more closely align the state's revenues with its expenditures. This technique has been used several times in the last few fiscal years and is being used this fiscal year. Some of these statutory deferrals were made permanent, and others were implemented only for one fiscal year.

In addition, state law gives the State Controller some flexibility as to how quickly the state must pay its bills. For instance, income tax refunds for personal income taxes are not legally due until 45 days after the return filing deadline, which is normally April 15. Accordingly, while the state has typically paid tax refunds as returns are filed, it can conserve cash by withholding refund payments until after the April 15 due date. Payments to vendors generally must be made within 45 days of receipt of an invoice. The state may delay payment until the end of this period, or it may even choose to make these payments later and pay interest. These delays are only used if the State Controller foresees a relatively short-term cash flow shortage.

Cash Management in Fiscal Year 2012-13

For the second consecutive year, the state entered the fiscal year in a stronger cash position than it had in some prior years. Timely enactment of the 2012 Budget Act allowed the state to carry out its regular cash management borrowing with RANs early in the year, and without the need for Interim RANs for the first time in three years. The state issued $10 billion of RANs on August 23, 2012.

The Legislature enacted a cash management bill which authorized deferral of certain payments during fiscal year 2012-13, including payments to K-12 schools (not to exceed $2.5 billion in the aggregate at any one time), reimbursements to the federal government for certain social service costs, payments to certain local government social services, transportation payments and Proposition 63 mental health payments (not to exceed $1 billion in the aggregate at one time), higher education payments, CalSTRS payment modifications and trial operations (not including payroll). The deferrals were made as planned in July and October of 2012. On November 21, 2012, the State Controller, State Treasurer and Director of Finance jointly determined that there would be sufficient cash in the General Fund to repay these deferrals one month early in December 2012. The officials subsequently determined that the March 2013 deferrals authorized by the cash management bill would not be necessary.

The state continued to benefit from $1.7 billion of additional internal borrowable resources in the SAIF until they were returned in late April 2013. The Legislature created a VIP Fund, described above, which could provide additional short-term cash management borrowing resources, but there are no current plans for use of this fund.

Cash Management in Fiscal Year 2013-14

The state's cash management plan in fiscal year 2013-14 consists primarily of internal borrowing from special funds and issuance of revenue anticipation notes in the amount of $5.5 billion. In addition, pursuant to legislation enacted in the last fiscal year, within fiscal year 2013-14 a payment of $250 million to the California State University ("CSU") and a payment of $500 million to the University of California are planned to be deferred. Such deferrals are at the discretion of the Director of Finance and shall be repaid in May or June of 2014. The CSU has agreed that in lieu of a payment deferral it will deposit a like amount into a fund in the State Treasury which can be borrowed by the General Fund.

State fiscal officers constantly monitor the state's cash position and if it appears that cash resources may become inadequate (including the maintenance of a projected cash reserve of at least $2.5 billion at any time), they will consider the use of other cash management techniques as described above, including seeking additional legislation.

STATE INDEBTEDNESS AND OTHER OBLIGATIONS

General

The State Treasurer is responsible for the sale of most debt obligations of the state and its various authorities and agencies. The state has always paid when due the principal of and interest on its general obligation bonds, general obligation commercial paper notes, lease-revenue obligations and short-term obligations, including RANs and RAWs. Additional information regarding the state's long-term debt appears in the section "STATE DEBT TABLES."

Capital Facilities Financing

General Obligation Bonds

The state Constitution prohibits the creation of general obligation indebtedness of the state unless a bond measure is approved by a majority of the electorate voting at a general election or a direct primary. Each general obligation bond act provides a continuing appropriation from the General Fund of amounts for the payment of debt service on the related general obligation bonds, subject only to the prior application of moneys in the General Fund to the support of the public school system and public institutions of higher education. Under the state Constitution, appropriations to pay debt service on any general obligation bonds cannot be repealed until the principal and interest on such bonds have been paid. See "STATE FINANCES – State Expenditures." Certain general obligation bond programs, called "self-liquidating bonds," receive revenues from specified sources so that moneys from the General Fund are not expected to be needed to pay debt service, but the General Fund will pay the debt service, pursuant to the continuing appropriation contained in the bond act, if the specified revenue source is not sufficient. The principal self-liquidating bond programs are the ERBs, supported by a special sales tax, and veterans general obligation bonds, supported by mortgage repayments from housing loans made to military veterans. See " – Economic Recovery Bonds."

General obligation bonds are typically authorized for infrastructure and other capital improvements at the state and local level. Pursuant to the state Constitution, general obligation bonds cannot be used to finance state budget deficits (except as already authorized by ERBs, as described below).

As of September 1, 2013, the state had outstanding $79,373,370,000 aggregate principal amount of long-term general obligation bonds, of which $73,963,800,000 were payable primarily from the state's General Fund, and $5,409,570,000 were "self-liquidating" bonds payable first from other special revenue funds. As of September 1, 2013, there were unused voter authorizations for the future issuance of $30,980,116,000 of long-term general obligation bonds, some of which may first be issued as commercial paper notes (see "General Obligation Commercial Paper Program" below). Of this unissued amount, $1,306,210,000 is for general obligation bonds payable first from other revenue sources. See the table "Authorized and Outstanding General Obligation Bonds" following the caption "STATE DEBT TABLES." As part of the 2012-13 Budget, the Legislature cancelled $32,659,000 of unused bond authorizations in eight bond acts.

A ballot measure is scheduled to be submitted to the voters at the statewide election in November 2014 (rescheduled from 2012) to approve the issuance of $11.14 billion in general obligation bonds for a wide variety of purposes relating to improvement of California's water supply systems, drought relief, and groundwater protection. Additional bond measures may be included on future election ballots, but any proposed bond measure must first be approved by a 2/3 vote of the Legislature or placed on the ballot through the initiative process.

Variable Rate General Obligation Bonds

The general obligation bond law permits the state to issue as variable rate indebtedness up to 20 percent of the aggregate amount of long-term general obligation bonds outstanding. These bonds are described generally in the following table and represent about 4.135 percent of the state's total outstanding general obligation bonds. With respect to $100,000,000 of indexed floating rate general obligation bonds, if these bonds cannot be remarketed on their scheduled mandatory tender date, there is no default but the interest rate would be increased in installments until the bonds can be remarketed or refunded, ultimately reaching 11 percent after 181 days. Furthermore, until these floating rate bonds are remarketed or refunded, they will be subject to quarterly mandatory redemptions of $5 million each over a period of five years commencing six months after the initial unsuccessful remarketing.

Name of Bond	Outstanding Principal Amount ($000) as of September 1, 2013	Variable Type	Liquidity Support[(a)]	Other Information
General Obligation	$2,473,690	Daily/Weekly VRDO	Letters of Credit	
General Obligation	100,000	Indexed Floating Rate	None	Mandatory Tender on May 1, 2015
General Obligation	98,100	Indexed Floating Rate	None	Fixed Maturities 2017-2020
ERBs	110,370	Daily VRDO	Letters of Credit	
ERBs	500,000	Fixed Rate to Mandatory Tender Date	None	Mandatory Tender on July 1, 2014
TOTAL	$3,282,160			

(a) See "Bank Arrangements."

Source: State of California, Office of the State Treasurer

Under state law, except for the ERBs and certain indexed floating rate bonds without credit enhancement, the state must pay the principal and interest of any general obligation bonds which are subject to optional or mandatory tender, and which are not remarketed or, if applicable, purchased by financial institutions which provide liquidity support to the state. The state has not entered into any interest rate hedging contracts in relation to any of its variable rate general obligation bonds. The state has no auction rate bonds outstanding.

General Obligation Commercial Paper Program

Pursuant to legislation enacted in 1995, voter-approved general obligation indebtedness may be issued either as long-term bonds or, for some but not all bond issues, as commercial paper notes. Commercial paper notes may be renewed or may be refunded by the issuance of long-term bonds. It is currently the state's policy to use commercial paper notes to provide flexibility for bond programs, such as to provide interim funding of voter-approved projects and to facilitate refunding of variable rate bonds into fixed rate bonds. Commercial paper notes are not included in the calculation of permitted variable rate indebtedness described under "Variable Rate General Obligation Bonds" and are not included in the figures provided above in the section "General Obligation Bonds." A total of $1.649 billion in principal amount of commercial paper notes is now authorized under agreements with various banks. See the "BANK ARRANGEMENTS" table for a list of the credit agreements supporting the commercial paper program. A total of $587,630,000 of commercial paper was outstanding as of September 1, 2013.

Bank Arrangements

In connection with the letters of credit obtained by the state in connection with variable rate obligations and the commercial paper program, the state has entered into a number of reimbursement agreements or other credit agreements with a variety of financial institutions as set forth in the table titled "BANK ARRANGEMENTS" which immediately follows the end of the text of this APPENDIX A, prior to "STATE DEBT TABLES." These agreements include various representations and covenants of the state, and the terms (including interest rates and repayment schedules) by which the state would be required to repay any drawings (including drawings resulting from any failed remarketings) on the respective letters of credit or other credit enhancement to which such credit agreements relate. To the extent that variable rate obligations cannot be remarketed over an extended period (whether due to reductions in the credit ratings of the institution providing credit enhancement or other factors), interest payable by the state pursuant to the reimbursement agreement or credit agreement would generally increase over current market levels relating to the variable rate obligations, and the principal repayment period would generally be shorter (typically less than five years) than the repayment period otherwise applicable to the variable rate obligation. On occasion the state's variable rate obligations were not remarketed resulting in draws on the applicable credit facilities but this has not occurred since 2009. In the past three years, the state has been able to successfully extend or replace its expiring credit facilities.

Lease-Revenue Obligations

In addition to general obligation bonds, the state has acquired and constructed capital facilities through the use of lease-revenue borrowing (also referred to as lease-purchase borrowing). Such borrowing must be authorized by the Legislature in a separate act or appropriation. Under these arrangements, the SPWB, another state or local agency or a joint powers authority issued bonds to pay for the acquisition or construction of facilities such as office buildings, university buildings, courthouses or correctional institutions. These facilities are leased to a state agency, the California State University, the University of California or the Judicial Council under a long-term lease that provides the source of payment of the debt service on the lease-revenue bonds. In some cases, there was not a separate bond issue, but a trustee directly created certificates of participation in the state's lease obligation, which were then marketed to investors. Under applicable court decisions, such lease arrangements do not constitute the creation of "indebtedness" within the meaning of the state constitutional provisions that require voter approval. For purposes of this APPENDIX A and the tables under "STATE DEBT TABLES," the terms "lease-revenue obligation," "lease-revenue financing," "lease-purchase obligation" or "lease-purchase" mean principally bonds or certificates of participation for capital facilities where the lease payments providing the security are payable from the operating budget of the respective lessees, which are primarily, but not exclusively, derived from the General Fund. The state had $11,775,410,000 in lease-revenue obligations outstanding as of September 1, 2013. The tables under "STATE DEBT TABLES" do not include equipment leases or leases which were not sold, directly or indirectly, to the public capital markets. The SPWB, which is authorized to sell lease-revenue bonds, had approximately $6.87 billion of authorized and unissued bonds as of September 1, 2013. The 2013-14 Budget included the cancellation of authorization for some unissued lease revenue bonds that are no longer needed.

The 2013-14 Budget includes a provision allowing the University of California ("UC") to restructure the SPWB's lease revenue bonds previously issued for projects for UC (collectively, the "UC SPWB Bonds") into its general revenue bond credit. See "CURRENT STATE BUDGET – Higher Education. On October 2, 2013, the UC issued general revenue bonds to refund all of the $2,389,830,000 aggregate principal amount of outstanding UC SPWB Bonds.

Non-Recourse Debt

Certain state agencies and authorities issue revenue obligations for which the General Fund has no liability. These revenue bonds represent obligations payable from state revenue-producing enterprises and projects, and conduit obligations payable from revenues paid by private users or local governments of facilities financed by the revenue bonds. In each case, such revenue bonds are not payable from the General Fund. The enterprises and projects include transportation projects, various public works projects, public and private educational facilities (including the California State University and University of California systems), housing, health facilities and pollution control facilities. State agencies and authorities had approximately $55.6 billion aggregate principal amount of revenue bonds and notes which are non-recourse to the General Fund outstanding as of June 30, 2013, as further described in the table "State Agency Revenue Bonds and Conduit Financing" under "STATE DEBT TABLES."

Build America Bonds

In February 2009, Congress enacted certain new municipal bond provisions as part of the federal economic stimulus act ("ARRA"), which allowed municipal issuers such as the state to issue "Build America Bonds" ("BABs") for new infrastructure investments. BABs are bonds whose interest is subject to federal income tax, but pursuant to ARRA the U.S. Treasury was to repay the issuer an amount equal to 35 percent of the interest cost on any BABs issued during 2009 and 2010. The BAB subsidy payments related to general obligation bonds are General Fund revenues to the state, while subsidy payments related to lease-revenue bonds are deposited into a fund which is made available to the SPWB for any lawful purpose. In neither instance are the subsidy payments specifically pledged to repayment of the BABs to which they relate. The cash subsidy payment with respect to the BABs, to which the state is entitled, is treated by the Internal Revenue Service as a refund of a tax credit and such refund may be offset by the Department of the Treasury by any liability of the state payable to the federal government. None of the state's BAB subsidy payments to date have been reduced because of such an offset.

Between April 2009 and December 2010, the state issued $13.54 billion of BAB general obligation ("GO") bonds and the SPWB issued $551 million of BAB lease-revenue bonds. The aggregate amount of the subsidy payments to be received from fiscal year 2013-14 through the maturity of these bonds (mostly 20 to 30 years) is approximately $8.3 billion for the general obligation BABs and $283 million for the lease-revenue BABs.

Pursuant to certain federal budget legislation adopted in August 2011, starting as of March 1, 2013, and continuing until Congress takes any further action, the government's BAB subsidy payments will be reduced as part of a government-wide "sequestration" of many program expenditures. The I.R.S. announced that each BAB subsidy payment would be reduced by 8.7 percent for the balance of the federal 2013 fiscal year (ending September 30, 2013). This resulted in a reduction of approximately $15.65 million from the $367.40 million of total subsidies the state had been scheduled to receive between October 1, 2012 and September 30, 2013 for both GO and SPWB BABs. The I.R.S. has announced that the sequestration reduction for federal fiscal year 2014 (starting October 1, 2013) will be 7.2 percent. If implemented for the full federal fiscal year, this would result in a reduction of approximately $27.53 million in subsidies. None of the BAB subsidy payments are pledged to pay debt service, so this reduction will not affect the state's ability to pay all of its GO and SPWB BABs on time, nor have any material impact on the state's General Fund.

Future Issuance Plans; General Fund Debt Ratio

Since 2006, a significant amount of new general obligation bonds and lease revenue bonds have been authorized by voters and/or the Legislature. These authorizations led to a substantial increase in the amount of General Fund supported debt outstanding, from $44.85 billion as of July 1, 2006 to $86.33 billion as of September 1, 2013, while still leaving current authorized and unissued bonds of about $35.96 billion.

In calendar years 2009 and 2010, over $35.07 billion of new money general obligation bonds, lease-revenue bonds and Proposition 1A bonds were sold. Following the record bond issuance levels in these years, bond issuance for new money general obligation bonds has substantially decreased as departments work to manage their existing bond cash balances. In calendar years 2011 and 2012, $8.0 billion of new money general obligation and lease revenue bonds were sold. In addition $5.8 billion of refunding general obligation and lease revenue bonds were sold. From January 1, 2013 through September 1, 2013, $3.09 billion of new money general obligation and lease revenue bonds were sold, and $3.93 billion of refunding general obligation and lease revenue bonds were sold.

Based on estimates from the Department of Finance, approximately $4.96 billion of new money general obligation bonds (some of which may initially be in the form of commercial paper notes) and approximately $2.34 billion of lease-revenue bonds will be issued in fiscal year 2013-14. These estimates will be updated by the State Treasurer's office based on information provided by the Department of Finance with respect to the updated funding needs of, and actual spending by, departments. In addition, the actual amount of bonds sold will depend on other factors such as overall budget constraints, market conditions and other considerations. The state also expects to issue refunding bonds as market conditions warrant.

With the continued issuance and sale of authorized but unissued bonds to occur in the future, the ratio of debt service on general obligation and lease-revenue bonds supported by the General Fund, to annual General Fund revenues and transfers (the "General Fund Debt Ratio"), can be expected to increase in future years. As assumptions for future debt issuance and revenue projections are updated from time to time, any changes to these amounts may impact the projected General Fund Debt Ratio. Based on the revenue estimates contained in the 2013 Budget Act and bond issuance estimates referred to in the preceding paragraph, the General Fund Debt Ratio is estimated to equal approximately 7.72 percent in fiscal year 2013-14.

The General Fund Debt Ratio is calculated based on actual gross debt service, without adjusting for receipts from the U.S. Treasury for the state's current outstanding general obligation and lease revenue BABs or the availability of any special funds that may be used to pay a portion of the debt service to help reduce General Fund costs. The total of these offsets for general obligation bond debt service is estimated to equal approximately $1.4 billion for fiscal year 2013-14. Including the estimated offsets reduces the General Fund Debt Ratio to 6.4 percent in fiscal year 2013-14. The actual General Fund Debt Ratio in future fiscal years will depend on a variety of factors, including actual debt issuance (which may include additional issuance approved in the future by the Legislature and, for general obligation bonds, the voters), actual interest rates, debt service structure, and actual General Fund revenues and transfers.

See the table "OUTSTANDING STATE DEBT, FISCAL YEARS 2008-09 THROUGH 2012-13" under "STATE DEBT TABLES" for certain historical ratios of debt service to General Fund receipts.

Economic Recovery Bonds

The California Economic Recovery Bond Act ("Proposition 57") was approved by the voters on March 2, 2004. Proposition 57 authorized the issuance of up to $15 billion in ERBs to finance the negative General Fund reserve balance as of June 30, 2004, and other General Fund obligations undertaken prior to June 30, 2004. Repayment of the ERBs is secured by a pledge of revenues from a one-quarter cent increase in the state's sales and use tax (the "special sales tax") that became effective July 1, 2004. In addition, as voter-approved general obligation bonds, the ERBs are secured by the state's full faith and credit and payable from the General Fund in the event the dedicated sales and use tax revenue is insufficient to repay the bonds.

The entire authorized amount of ERBs was issued in three sales, in May and June 2004, and in February 2008. No further ERBs can be issued under Proposition 57, except for refunding bonds. The state issued refunding ERBs in 2009 to restructure the program in response to a drop in taxable sales caused by the recession, and in 2011 for debt service savings.

Three different sources of funds are required to be applied to the early retirement (generally by purchase or redemption) of ERBs: (i) all proceeds from the dedicated special sales tax in excess of the amounts needed, on a semi-annual basis, to pay debt service and other required costs of the bonds, (ii) all proceeds from the sale of specified surplus state property, and (iii) fifty percent of each annual deposit, up to $5 billion in the aggregate, of deposits in the BSA (see "THE BUDGET PROCESS – Constraints on the Budget Process – Balanced Budget Amendment (Proposition 58)"). As of July 1, 2013, funds from these sources have been used for early retirement of approximately $8.94 billion of bonds during fiscal years 2005-06 through 2012-13, including $472 million which was transferred from the BSA in fiscal year 2006-07 and $1.023 billion transferred from the BSA in fiscal year 2007-08.

The state accumulated approximately $451 million in excess special sales tax during the six month period ending July 1, 2013. The state will use these moneys to retire ERBs during the next year. An initial redemption of $150 million of ERBs occurred in August 2013.

The Governor suspended the BSA transfers in each of the fiscal years 2008-09 through 2013-14 due to the condition of the General Fund.

Tobacco Settlement Revenue Bonds

In 1998 the state signed a settlement agreement (the "Master Settlement Agreement" or "MSA") with the four major cigarette manufacturers (the "participating manufacturers" or "PMs"). Under the MSA, the PMs agreed to make payments to the state in perpetuity, which payments at the time were predicted to total approximately $25 billion (subject to adjustments) over the first 25 years. Under a separate Memorandum of Understanding, half of the payments made by the cigarette manufacturers are paid to the state and half to certain local governments. The specific amount to be received by the state and such local governments is subject to adjustment under the MSA, including reduction of the PMs' payments for decreases in cigarette shipment volumes by the PMs, payments owed to certain "Previously Settled States" and certain other types of offsets.

State law enacted in 2002 (the "Tobacco Securitization Law") authorized the establishment of a special purpose trust to purchase the tobacco assets and to issue revenue bonds secured by the tobacco settlement revenues received beginning in the 2003-04 fiscal year. Legislation in 2003 amended the Tobacco Securitization Law to authorize a credit enhancement mechanism that requires the Governor to request an appropriation from the General Fund in the annual Budget Act to allocate funds from the General Fund for the payment of debt service and other related costs of the tobacco settlement revenue bonds secured by the second 2003 sale of tobacco settlement revenues in the event tobacco settlement revenues and certain other amounts are insufficient. The Legislature is not obligated to make any General Fund appropriation.

In 2003, two separate sales of these assets financed with revenue bonds (the "2003 Bonds") produced about $4.75 billion in proceeds which were transferred to the General Fund. In 2005 and 2007, the state refunded all of the original 2003 Bonds, generating additional proceeds of approximately $1.783 billion, which were also transferred to the General Fund. This credit enhancement mechanism was applied to only the second 2003 sale of bonds and was continued when those bonds were refunded in 2005 and in 2013 (the "2005 Bonds" and the "2013 Bonds"). This credit enhancement mechanism only applies to the outstanding principal amount of approximately $2.7 billion of 2005 and 2013 Bonds.

Tobacco settlement revenue bonds are neither general nor legal obligations of the state or any of its political subdivisions and neither the faith and credit nor the taxing power nor any other assets or revenues of the state or of any political subdivision is or shall be pledged to the payment of any such bonds; provided that, as described above, in connection with the issuance of the 2005 and 2013 Bonds, the state covenanted to request the Legislature for a General Fund appropriation in the event there are insufficient tobacco settlement revenues to pay debt service with respect to the 2005 and 2013 Bonds, and other available amounts, including the reserve funds with respect to the 2005 and 2013 Bonds, are depleted. Since the issuance of the 2005 Bonds, this appropriation has been requested and approved by the Legislature, to be utilized in the event tobacco settlement revenues and other available moneys are not sufficient to pay debt service. However, use of the appropriated moneys has never been required.

One of the reserve funds relating to the 2005 Bonds was used to make required debt service interest payments on the 2005 Bonds in 2011 and 2012 in part due to the withholding related to the declining tobacco consumption and disputes over declining PM market share. The total amount of the draws was approximately $7.94 million. In April 2013 the reserve fund was replenished in full following the disbursements of the non-participating manufacturer settlement funds and receipt of the scheduled tobacco settlement revenues. As of July 1, 2013, the amount of the two reserve funds relating to the 2005 Bonds was approximately $246.4 million. If, in any future year tobacco settlement revenues are less than required debt service payments on the 2005 and 2013 Bonds in such year, additional draws on the reserve funds with respect to the 2005 and 2013 Bonds will be required. Future revenues in excess of debt service requirements, if any, will be used to replenish the reserve funds of the bonds. The state General Fund is not obligated to replenish the reserve funds, nor to request an appropriation to replenish the reserve funds.

Although the state cannot predict the amount of future tobacco settlement revenues, if the current trends continue, the amount of tobacco settlement revenues and other available moneys, including the reserve funds, may at some point in the future be insufficient to pay debt service on the 2005 and 2013 Bonds, and the Governor would be required to request an appropriation from the General Fund. However, the Legislature is not obligated to make an appropriation.

Cash Management Borrowings

As part of its cash management program, the state has regularly issued short-term obligations to meet cash management needs. See "CASH MANAGEMENT."

The following table shows the amount of RANs issued in the past five fiscal years and the current fiscal year.

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TABLE 8
State of California Revenue Anticipation Notes Issued
Fiscal Years 2008-09 to 2013-14

(Dollars in Billions)

Fiscal Year	Type	Principal Amount	Date of Issue	Maturity or Redemption Date
2008-09	Notes Series A-1	$1.2	October 23, 2008	May 20, 2009
	Notes Series A-2	3.8	October 23, 2008	June 22, 2009
	Notes Series B-1	0.5	March 23, 2009	June 23, 2009
2009-10	Interim Notes	1.5	August 27, 2009	September 29, 2009*
	Notes Series A-1	2.825	September 29, 2009	May 25, 2010
	Notes Series A-2	5.975	September 29, 2009	June 23, 2010
2010-11	Interim Notes	6.7	October 28, 2010	November 23, 2010*
	Notes Series A-1	2.25	November 23, 2010	May 25, 2011
	Notes Series A-2	7.75	November 23, 2010	June 28, 2011
2011-12	Interim Notes	5.4	July 28, 2011	September 22, 2011*
	Notes Series A-1	0.5	September 22, 2011	May 24, 2012
	Notes Series A-2	4.9	September 22, 2011	June 26, 2012
	Notes Series B	1.0	February 22, 2012	June 28, 2012
2012-13	Notes Series A-1	2.5	August 23, 2012	May 30, 2013
	Notes Series A-2	7.5	August 23, 2012	June 20, 2013
2013-14	Notes Series A-1	1.5	August 22, 2013	May 28, 2014
	Notes Series A-2	4.0	August 22, 2013	June 23, 2014

* Redemption date.
Source: State of California, Office of the State Treasurer

Indirect, Nonpublic or Contingent Obligations

Flood Litigation Judgment. In 2005, the state settled a lawsuit arising from liability for past flood damages through a stipulated judgment in the amount of $428 million, which provided for the state to make annual payments of $42.8 million, plus interest, for 10 years; the payments are subject to annual appropriation by the Legislature. The Legislature has included the required annual installment in each budget act since the settlement was approved. This matter is not treated as a "debt" of the state for any legal or constitutional purposes. The state understands that its annual installment payments have been pledged to secure certain debt instruments. The 2013 Budget Act includes $46.1 million for the required annual installment.

Unemployment Insurance Fund Borrowing. As described in "STATE FINANCES – Unemployment Insurance," commencing in fiscal year 2011-12, the state has been required to pay interest on loans made by the federal government to the state Unemployment Insurance ("UI") Fund. The principal amount of these loans at the end of 2012 was about $10.2 billion. The 2012 Budget Act appropriated $308.2 million to pay for the interest expense on this loan due September 30, 2012, by borrowing money from a state special fund. The 2013 Budget Act appropriates $261.5 million from the General Fund to make the September 2013 interest payment.

Office of Statewide Health Planning and Development Guarantees. Pursuant to a law created in 1969, the Office of Statewide Health Planning and Development of the State of California ("OSHPD") insures loans and bond issues for financing and refinancing of construction and renovation projects for nonprofit and publicly-owned healthcare facilities. This program (commonly called "Cal-Mortgage Loan Insurance") is currently authorized by statute to insure up to $3 billion for health facility projects.

State law established the Health Facility Construction Loan Insurance Fund (the "Fund") as a trust fund which is continuously appropriated and may only be used for purposes of this program. The Fund is used as a depository of fees and insurance premiums and any recoveries and is the initial source of funds used to pay administrative costs of the program and shortfalls resulting from defaults by insured borrowers. If the Fund were unable to make payment on an insured loan or bond, state law provides for the State Treasurer to issue debentures to the holders of the defaulted loan or bond which are payable on a par with state general obligation bonds. All claims on insured loans to date have been paid from the Fund.

As of May 31, 2013, OSHPD insured 117 loans to nonprofit or publicly owned health facilities throughout California with an aggregate par amount of approximately $1.692 billion. The cash balance of the Fund was approximately $167.0 million as of May 31, 2013. OSHPD engaged Oliver Wyman Actuarial Consulting, Inc. to perform the biennial actuarial study of the Fund as of June 30, 2010, and the study was completed in August 2011 (the "2010 actuarial study"). Based upon a number of assumptions, the 2010 actuarial study concluded, among other things, that the Fund appeared to be sufficient, under the "expected scenario" to maintain a positive balance until at least fiscal year 2039-40. Even under the "most pessimistic scenario," the 2010 actuarial study found that there was a 70 percent likelihood that the Fund's reserves as of June 30, 2010 would protect against any General Fund losses until at least 2020-21, and a 90 percent likelihood that the Fund's reserves as of June 30, 2010 would protect against any General Fund losses until at least fiscal year 2016-17. An updated actuarial study for the period ended June 30, 2012 is in the contracting process. There can be no assurances that the financial condition of the Fund has not materially declined since the 2010 actuarial study. More information on the program can be obtained from OSHPD's website.

Equipment Lease/Purchase Program. The state Department of General Services operates a centralized program which allows state departments to acquire equipment, software or services under financing programs with approved vendors. The state departments make annual payments for the equipment from their support budgets, which are subject to annual appropriation by the Legislature. If for any reason the annual payments are not appropriated, the state department is obligated to return the equipment to the vendor. These contracts are represented as capital leases in the state's financial statements. As of June 30, 2013, the aggregate total of 66 contracts under this program was approximately $95 million.

STATE FINANCES

The General Fund

The moneys of the state are segregated into the General Fund and over 1,000 other funds, including special, bond and trust funds. The General Fund consists of revenues received by the State Treasury and not required by law to be credited to any other fund, as well as earnings from the investment of state moneys not allocable to another fund. The General Fund is the principal operating fund for the majority of governmental activities and is the depository of most of the major revenue sources of the state. For additional financial data relating to the General Fund, see the financial statements incorporated in or attached to this APPENDIX A. See also "FINANCIAL STATEMENTS." The General Fund may be expended as a consequence of appropriation measures enacted by the Legislature and approved by the Governor (including the annual Budget Act), as well as appropriations pursuant to various constitutional authorizations and initiative statutes.

Budget Reserves

Special Fund for Economic Uncertainties

The SFEU is funded with General Fund revenues and was established to protect the state from unforeseen revenue reductions and/or unanticipated expenditure increases. The State Controller may transfer funds from the SFEU to the General Fund as necessary to meet cash needs of the General Fund and such transfers are characterized as "loans." The State Controller is required to return moneys so transferred without payment of interest as soon as there are sufficient moneys in the General Fund. At the end of each fiscal year, the State Controller is required to transfer from the SFEU to the General Fund any amount necessary to eliminate any deficit in the General Fund.

The legislation creating the SFEU (Government Code Section 16418) also contains a continuous appropriation authorizing the State Controller to transfer the unencumbered balance in the General Fund to the SFEU, as of the end of each fiscal year. However, if, at the end of any fiscal year in which it has been determined that there are revenues in excess of the amount that may be appropriated, as defined in subdivision (a) of Section 2 of Article XIII B of the state Constitution, this transfer shall be reduced by the amount of the excess revenues. The estimates of the transfer shall be made jointly by the LAO and the Department of Finance. For a further description of Article XIII B, see "– State Appropriations Limit." In certain circumstances, moneys in the SFEU may be used in connection with disaster relief.

For budgeting and accounting purposes, any appropriation made from the SFEU, other than appropriations contained in Government Code Section 16418, is deemed an appropriation from the General Fund. For year-end reporting purposes, the State Controller is required to add the balance in the SFEU to the balance in the General Fund so as to show the total moneys then available for General Fund purposes.

See Table 1 and footnote (i) in Table 4 for information concerning the recent balances in the SFEU and projections of the balances for the previous and current fiscal years. As in any year, the Budget Act and related trailer bills are not the only pieces of legislation which appropriate funds. Other factors, including re-estimates of revenues and expenditures, existing statutory requirements and additional legislation introduced and passed by the Legislature may impact the fiscal year-end balance in the SFEU.

Budget Stabilization Account

Proposition 58, approved in March 2004, created the BSA as a second budgetary reserve. Beginning with fiscal year 2006-07, a specified portion of estimated annual General Fund revenues (reaching a ceiling of 3 percent by fiscal year 2008-09) will be transferred by the State

Controller into the BSA no later than September 30 of each fiscal year unless the transfer is suspended or reduced as described below. These transfers will continue until the balance in the BSA reaches $8 billion or 5 percent of the estimated General Fund revenues for that fiscal year, whichever is greater. The annual transfer requirement will go back into effect whenever the balance falls below the $8 billion or the 5 percent target. The annual transfers can be suspended or reduced for a fiscal year by an executive order issued by the Governor no later than June 1 of the preceding fiscal year. Proposition 58 also provides that one-half of the annual transfers shall be used to retire ERBs, until a total of $5 billion has been used for that purpose. A total of $1.495 billion of the $5 billion amount has been applied to the retirement of ERBs. (See "STATE INDEBTEDNESS AND OTHER OBLIGATIONS – Economic Recovery Bonds").

Since 2007, each Budget Act has provided the Director of Finance the authority to transfer moneys from the BSA back into the General Fund in an amount determined by the Director of Finance to be sufficient to ensure there is a prudent General Fund balance. Using this authority, the Director of Finance ordered the transfer of the entire balance of $1.495 billion from the BSA to the General Fund to address a fiscal emergency proclaimed by the Governor on January 10, 2008. Once moneys are transferred out of the BSA, pursuant to this authority, they will not be replenished by a future fiscal year's annual transfer unless the Legislature, by statute, directs additional funds to be transferred from the General Fund into the BSA. Separate from the foregoing process for a budgetary transfer, the BSA may be used to make temporary cash flow loans to the General Fund, which must be repaid when the General Fund has available cash, as described under "– Inter-Fund Borrowings."

On May 31, 2013, Governor Brown issued an Executive Order to suspend the fiscal year 2013-14 transfer from the General Fund to the BSA estimated at $2.9 billion based on the 2013 Budget Act. Governor Brown had also suspended the General Fund transfer to the BSA in fiscal years 2011-12 and 2012-13. In addition, the previous Governor had suspended the General Fund transfer to the BSA for fiscal years 2008-09 through 2010-11. There is currently no money in the BSA.

Inter-Fund Borrowings

Inter-fund borrowing is used to meet temporary imbalances of receipts and disbursements in the General Fund. In the event the General Fund is or will be exhausted, the State Controller is required to notify the Governor and the PMIB (comprised of the Director of Finance, the State Treasurer and the State Controller). The Governor may then order the State Controller to direct the transfer of all or any part of the moneys not needed in Special Funds to the General Fund, as determined by the PMIB. All money so transferred must be returned to the special fund from which it was transferred as soon as there is sufficient money in the General Fund to do so. Transfers cannot be made which will interfere with the objective for which such special fund was created, or from certain specific funds. In general, when moneys transferred to the General Fund in any fiscal year from any special fund pursuant to the inter-fund borrowing mechanism exceed 10 percent of the total additions to such special fund as shown in the statement of operations of the preceding fiscal year as set forth in the Budgetary/Legal Basis Annual Report of the State Controller, interest must be paid on such excess at a rate determined by the PMIB to be the current earning rate of the PMIA. This provision does not apply to temporary borrowings from the BSA or other accounts within the General Fund.

The amount of loans from the SFEU, the BSA and other internal sources to the General Fund, as of the end of any month is displayed in the most recent State Controller's Statement of General Fund Cash Receipts and Disbursements, on the first page under "Borrowable Resources – Outstanding Loans." See EXHIBIT 2 to APPENDIX A.

Any determination of whether a proposed borrowing from one of the special funds is permissible must be made with regard to the facts and circumstances existing at the time of the proposed borrowing. The Attorney General has identified certain criteria relevant to such a determination. For instance, amounts in the special funds eligible for inter-fund borrowings are legally available to be transferred to the General Fund if a reasonable estimate of expected General Fund revenues, based upon legislation already enacted, indicates that such transfers can be paid from the General Fund promptly if needed by the special funds or within a short period of time if not needed. In determining whether this requirement has been met, the Attorney General has stated that consideration may be given to the fact that General Fund revenues are projected to exceed expenditures entitled to a higher priority than payment of internal transfers, i.e., expenditures for the support of the public school system and public institutions of higher education.

Enactment of Proposition 22 on November 2, 2010 prohibited future interfund borrowing from certain transportation funds. However, legislation (Chapter 1, Statutes of 2012 – "SB 95") was enacted on February 3, 2012 to clarify the intent of Proposition 22, making those transportation funds available for short-term cash management borrowing purposes.

In addition to temporary inter-fund cash management borrowings described in this section, budgets enacted in the current and past fiscal years have included other budgetary transfers and long-term loans from Special Funds to the General Fund. In some cases, such budgetary loans and transfers have the effect of reducing internal borrowable resources.

The following table shows internal borrowable resources available for temporary cash management loans to the General Fund on June 30 of each of the fiscal years 2008-09 through 2012-13 and estimates the amount currently available based on the 2013-14 Budget. See EXHIBIT 1 and EXHIBIT 2 to APPENDIX A. The amount of internal borrowable resources fluctuates throughout the year.

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TABLE 9
Internal Borrowable Resources
(Cash Basis)

(Dollars in Millions)

	June 30					
	2009	**2010**	**2011**	**2012[(a)]**	**2013[(b)]**	**2014[(b)]**
Available Internal Borrowable Resources	$19,037.7	$18,680.5	$18,193.3	$20,824.3	$21,215.3	$20,981.1
Outstanding Loans						
From Special Fund for Economic Uncertainties and Budget Stabilization Account	1,539.6	435.9	1,190.8	474.9	948.2	1,071.1
From Special Funds and Accounts	10,368.5	9,486.2	6,973.7	9,118.4	1,486.7	2,353.5
Total Outstanding Internal Loans	(11,908.1)	(9,922.1)	(8,164.5)	(9,593.3)	(2,434.9)	(3,424.6)
Unused Internal Borrowable Resources	$7,129.6	$8,758.4	$10,028.8	$11,231.0	$18,078.4	$17,556.5

(a) Increase in internal borrowable resources at June 30, 2012 is largely a result of the SAIF program, which was in effect from September 2011 to April 2013. See "CASH MANAGEMENT – Cash Management Tools."

(b) Projected as of 2013 Budget Act.

Source: Years ended June 30, 2009 through June 30, 2013: State of California, Office of the State Controller.
Year ending June 30, 2014: State of California, Department of Finance.

State Warrants

No money may be drawn from the State Treasury except upon a warrant duly issued by the State Controller. The State Controller is obligated to draw every warrant on the fund out of which it is payable for the payment of money directed by state law to be paid out of the State Treasury; however, a warrant may not be drawn unless authorized by law and unless unexhausted specific appropriations provided by law are available to meet it. As described below, state law provides two methods for the State Controller to respond if the General Fund has insufficient "Unapplied Money" available to pay a warrant when it is drawn, referred to generally as "registered warrants" and "reimbursement warrants." "Unapplied Money" consists of money in the General Fund for which outstanding warrants have not already been drawn and which would remain in the General Fund if all outstanding warrants previously drawn and then due were paid subject to the prior application of such money to obligations of the state with a higher priority. See "STATE INDEBTEDNESS AND OTHER OBLIGATIONS – Cash Management Borrowings." Unapplied Money may include moneys transferred to the General Fund from the SFEU and the BSA and internal borrowings from state Special Funds (to the extent permitted by law); however the state is not obligated to utilize interfund borrowings for the payment of state obligations if insufficient Unapplied Money is available for such payment. See "STATE FINANCES – Budget Reserves – Special Fund for Economic Uncertainties" and "Inter-Fund Borrowings."

Registered Warrants

If a warrant is drawn on the General Fund for an amount in excess of the amount of Unapplied Money in the General Fund, after deducting from such Unapplied Money the amount, as estimated by the State Controller, required by law to be earmarked, reserved or set apart from the Unapplied Money for the payment of obligations having priority over obligations to which such warrant is applicable, the warrant must be registered on the reverse side as not paid because of the shortage of funds in the General Fund. The State Controller may issue registered warrants before exhausting all cash management techniques that could provide Unapplied Money to the General Fund. See "CASH MANAGEMENT."

Registered warrants are interest bearing obligations that may be issued either with or without a maturity date. Most registered warrants bear interest at a rate designated by the PMIB up to a maximum of five percent per annum except, if the PMIB determines that it is in the best interests of the state to do so, the PMIB may fix the rate of interest paid on registered warrants at no more than 12 percent per annum. If issued with a maturity date, the principal and interest on such warrant will not be due until that date (although it may be optionally redeemed early if the state has sufficient unapplied money to do so) and the state may make other payments prior to that maturity date. If a registered warrant is issued without a maturity date, or its maturity date has occurred, it becomes redeemable by the holders on the date determined by the State Controller, with the approval of the PMIB.

State law generally requires that registered warrants be redeemable in the order they are issued but not prior to their maturity date, if any. The state issued approximately $2.6 billion of registered warrants to pay certain obligations of the state not having payment priority under law commencing on July 2, 2009, all of which were called for early redemption on September 4, 2009. (The State Controller was able to manage cash resources to ensure that higher priority payments, such as for schools and debt service, were made on time in July and August 2009.) The issuance of the registered warrants permitted the state to pay Priority Payments with regular warrants which could be cashed.

Reimbursement Warrants

In lieu of issuing individual registered warrants to numerous creditors, state law provides an alternative procedure whereby the Governor, upon request of the State Controller, may authorize utilizing the General Cash Revolving Fund in the State Treasury to borrow from other state Special Funds to meet payments authorized by law. The State Controller may then issue "reimbursement warrants" (sometimes called "revenue anticipation warrants" or "RAWs") for sale to investors to reimburse the General Cash Revolving Fund, thereby increasing cash resources for the General Fund to cover required payments. The General Cash Revolving Fund exists solely to facilitate the issuance of reimbursement warrants. Reimbursement warrants have a fixed maturity date which may not be later than the end of the fiscal year following the year in which they were issued.

The principal of and interest on reimbursement warrants must be paid by the State Treasurer on their respective maturity dates from any Unapplied Money in the General Fund and available for such payment. In the event that Unapplied Money is not available for payment on the respective maturity dates of reimbursement warrants, and refunding warrants (see "–Refunding Warrants") have not been sold at such times as necessary to pay such reimbursement warrants, such reimbursement warrants will be paid, together with all interest due thereon (including interest accrued at the original interest rate after the maturity date), at such times as the State Controller, with the approval of the PMIB, may determine.

The state has issued reimbursement warrants on several occasions in order to meet its cash needs when state revenues were reduced because of an economic recession, and the state incurred budget deficits. The state most recently issued reimbursement warrants in June 2002 and in June 2003.

Refunding Warrants

If it appears to the State Controller that, on the maturity date of any reimbursement warrant there will not be sufficient Unapplied Money in the General Fund to pay maturing reimbursement warrants, the State Controller is authorized under state law, with the written approval of the State Treasurer, to issue and sell refunding warrants to refund the prior, maturing reimbursement warrants. Proceeds of such refunding warrants must be used exclusively to repay the maturing warrants. In all other respects, refunding warrants are treated like reimbursement warrants, as described above.

Sources of Tax Revenue

The following is a summary of the state's major tax revenues and tax laws. Further information on state revenues is contained under "CURRENT STATE BUDGET," and "STATE FINANCES – Recent Tax Receipts." In fiscal year 2011-12, approximately 92 percent of the state's General Fund revenues and transfers were derived from personal income taxes, corporation taxes, and sales and use taxes. See Table 16 titled "Comparative Yield of State Taxes – All Funds, Fiscal Years 2008-09 through 2013-14" for a summary of the actual and projected sources of the state's tax revenue for those fiscal years.

Personal Income Tax

The California personal income tax is closely modeled after the federal income tax law. It is imposed on net taxable income (gross income less exclusions and deductions), with rates ranging from 1 percent to 12.3 percent. In addition, a 1 percent surcharge is imposed on taxable income above $1 million and proceeds from such tax are dedicated to the Mental Health Services Fund. The personal income tax is adjusted annually by the change in the consumer price index to prevent taxpayers from being pushed into higher tax brackets without a real increase in income. Personal, dependent, and other credits are allowed against the gross tax liability. In addition, taxpayers may be subject to an alternative minimum tax ("AMT"), which is much like the federal AMT. The personal income tax structure is considered to be highly progressive. For example, the Franchise Tax Board indicates that the top 1 percent of taxpayers paid 41.1 percent of the total personal income tax in tax year 2011.

The 2013-14 Budget revenue projections include the revenue expected from Proposition 30 (The Schools and Local Public Safety Protection Act of 2012) passed by the voters on November 6, 2012. This measure provides for an increase in the personal income tax rate of one percent for joint filing taxpayers with income above $500,000 and equal to or below $600,000; two percent increase for incomes above $600,000 and equal to or below $1,000,000; and three percent increase for incomes above $1,000,000. Tax rates for single filers will start at incomes one-half those for joint filers. These additional rates will remain in effect for seven years, commencing for calendar year 2012. The Administration estimates that the additional revenue from the addition of the three new tax brackets was $3.4 billion in fiscal year 2011-12, $4.8 billion in fiscal year 2012-13, and will be $4.8 billion in fiscal year 2013-14.

The 2013-14 Budget reflects assumptions regarding the behavioral impacts of federal tax law changes. The federal Economic Growth and Tax Relief Reconciliation Act of 2001 reduced taxes for dividend income, capital gains, and other income. These tax reductions were set to expire after 2010. However, late in 2010, they were extended through 2012. In addition, a 3.8 percent surtax on specified unearned income went into effect on January 1, 2013. For the 2013-14 Budget, the Department of Finance made assumptions that in 2012 some taxpayers would respond to the potential rate changes by accelerating 25 percent of projected 2013 capital gains into 2012. It was also assumed that 4 percent of projected 2013 dividends and 1.1 percent of wages would be accelerated to 2012, thereby increasing receipts in fiscal year 2012-13, but reducing income tax receipts for fiscal year 2013-14. While federal tax cuts expired for high income earners (married filers over $450,000) but were extended for other taxpayers, because Congress did not act until January 2013, it is expected that the income shifts that were assumed in the forecast actually occurred. See "RECENT DEVELOPMENTS – Recent Tax Receipts." There can be no assurance that acceleration of income into 2012 was not higher than assumed, which could reduce revenues in fiscal year 2013-14.

TABLE 10
Personal Income Tax General Fund Revenues (PIT)
Fiscal Years 2007-08 through 2013-14

Fiscal Year	Dollars In Millions	Percent Total General Fund Revenues And Transfers
2007-08	$54,182	54.6%
2008-09	43,376	52.4
2009-10	44,852	51.5
2010-11	49,445	52.9
2011-12[a]	54,261	62.5
2012-13[a][e]	63,901	65.1
2013-14[a][e]	60,827	62.6

(a) Includes revenue from the higher rates imposed by Proposition 30 that are dedicated to the Education Protection Account.
(e) Estimated.

Source: State of California, Department of Finance.

Taxes on capital gains realizations, which are linked to stock market performance, can add a significant dimension of volatility to personal income tax receipts. For example, capital gains tax receipts accounted for 14.8 percent of General Fund revenues and transfers in fiscal year 2000-01, while the 2013-14 Budget projects that capital gains will account for 10.6 percent of General Fund revenues and transfers in fiscal year 2012-13 and 6 percent in fiscal year 2013-14.

The following table shows actual and projected tax revenues related to capital gains (which are included in the table showing total personal income tax receipts above):

TABLE 11
Revenues from Capital Gains
Fiscal Years 2007-08 through 2013-14

Fiscal Year	Dollars In Millions	Percent Total General Fund Revenues And Transfers
2007-08	$10,887	11.0%
2008-09	4,553	5.5
2009-10	2,252	2.6
2010-11	4,687	5.0
2011-12	4,150	4.8
2012-13[(e)]	10,414	10.6
2013-14[(e)]	5,842	6.0

(e) Estimated.
Source: Through 2011-12, State of California, Franchise Tax Board. After 2011-12, State of California, Department of Finance.

Sales and Use Tax

The sales tax is imposed upon retailers for the privilege of selling tangible personal property in California. Most retail sales and leases are subject to the tax. However, exemptions have been provided for certain essentials such as food for home consumption, prescription drugs, gas delivered through mains, and electricity. Other exemptions provide relief for a variety of sales ranging from custom computer software to aircraft.

The California use tax is imposed at the same rates as the regular sales tax on consumers of tangible personal property that is used, consumed, or stored in this state. Use tax applies to purchases from out-of-state vendors that are not required to collect tax on their sales. Use tax also applies to most leases of tangible personal property.

As of January 1, 2013, the breakdown for the uniform statewide state and local sales and use tax (referred to herein as the "sales tax") rate of 7.50 percent was as follows (many local jurisdictions have voted additional sales taxes for local purposes):

- 3.9375 percent imposed as a state General Fund tax;
- 0.25 percent dedicated to the Education Protection Account, per Proposition 30.
- 1.0625 percent dedicated to local governments for realignment purposes (Local Revenue Fund 2011);
- 0.5 percent dedicated to local governments for health and welfare program realignment (Local Revenue Fund);
- 0.5 percent dedicated to local governments for public safety services (Local Public Safety Fund);

- 1.0 percent local tax imposed under the Uniform Local Sales and Use Tax Law, with 0.25 percent dedicated to county transportation purposes and 0.75 percent for city and county general-purpose use; and
- 0.25 percent deposited into the Fiscal Recovery Fund to repay the state's ERBs (the "special sales tax").

Passage of Proposition 30 added a 0.25 percent additional sales tax rate from January 1, 2013 through December 31, 2016. Proposition 30 also constitutionally guarantees that the 1.0625 percent of the sales tax rate is dedicated to the cost of the realignment of certain defined public safety services programs from the state to the counties and explicitly states that this sales tax revenue does not constitute General Fund revenue for purposes of the Proposition 98 guarantee. The 1.0625 percent of the sales tax rate was expected to generate $5.386 billion in fiscal year 2012-13 and $5.813 billion in fiscal year 2013-14.

Legislation passed as part of the 2011 Budget Act imposes a use tax collection responsibility for certain out-of-state, and particularly internet, retailers who meet certain criteria. The new responsibility took effect in September 2012. The Department of Finance had estimated about $100 million of additional revenue from this source in fiscal year 2012-13, which was included in the 2013-14 Budget. There is some uncertainty about this number since the state has, as of yet, little experience with this method of taxation. After the Department of Finance finalized its revenue estimates, the Board of Equalization ("BOE") provided updated actual revenue from this source of $89 million through the end of March 2013, which suggests that fiscal year 2012-13 revenue from this legislation will likely come in above the $100 million estimate.

Existing law provides that 0.25 percent of the base state and local sales tax rate may be suspended in any calendar year upon certification by the Director of Finance, by November 1 in the prior year, that both of the following have occurred: (1) the General Fund reserve (excluding the revenues derived from the 0.25 percent special sales tax) is expected to exceed 3 percent of revenues in that fiscal year (excluding the revenues derived from the 0.25 percent special sales tax) and (2) actual revenues for the period May 1 through September 30 equal or exceed the previous May Revision forecast. The 0.25 percent rate will be reinstated the following year if the Director of Finance subsequently determines conditions (1) or (2) above are not met for that fiscal year. The Department of Finance estimates that the reserve level will be insufficient to trigger a reduction for calendar year 2013. See "CURRENT STATE BUDGET – Summary of State Revenues and Expenditures" for a projection of the fiscal years 2012-13 and 2013-14 General Fund Reserve.

Existing law provides that the special sales tax will be collected until the first day of the calendar quarter at least 90 days after the Director of Finance certifies that all ERBs and related obligations have been paid or retired or provision for their repayment has been made or enough sales taxes have been collected to pay all ERBs and related obligations to final maturity. At such time the special sales tax will terminate and the city and county portion of taxes under the uniform local sales and use tax will be automatically increased by 0.25 percent. However, under current law, when ERBs and related obligations have been met, cities and counties would not be fully compensated for the revenue lost due to a three-month lag between when a taxable sale occurs and when the BOE allocates the revenue to the local governments. The 2013-14 Budget outlines a process to provide compensation to cities and counties when the special sales tax mechanism is no longer needed to pay for the ERBs. See "STATE INDEBTEDNESS AND OTHER OBLIGATIONS – Economic Recovery Bonds."

An appellate court decision from 2008 held that, from April 8, 1999 to June 30, 2008, two Dell entities and two providers of maintenance and warranty services had improperly collected from customers and remitted to the BOE use tax on optional service contracts that were sold with computers. The state anticipates that a pending action will result in a settlement requiring the BOE to refund the tax with interest. Plaintiffs estimate that the refund amounts could be as much as $250 million (all funds), if every purchaser of a service contract were to file a claim for refund pursuant to the settlement procedures. In order to identify and notify consumers affected by the decision, BOE sent out 3.6 million notices in January 2013, with a claims filing deadline of May 29, 2013. As of June 14, 2013, about 191,000 claims totaling $46 million (all funds) were received. This is substantially below BOE's estimate of $120 million to be refunded during fiscal year 2013-14.

The following table shows actual and projected sales and use tax revenue:

TABLE 12
Sales and Use Tax General Fund Revenues
Fiscal Years 2007-08 through 2013-14

Fiscal Year	Dollars In Millions	Percent Total General Fund Revenues And Transfers
2007-08	$26,613	26.8%
2008-09	23,753	28.7
2009-10	26,741	30.7
2010-11	26,983	28.9
2011-12	18,658	21.5
2012-13[(a)(e)]	20,240	20.6
2013-14[(a)(e)]	22,983	23.7

(a) Includes revenue from the higher rates imposed by Proposition 30 that are dedicated to the Education Protection Account.
(e) Estimated.
Source: State of California, Department of Finance.

Corporation Tax

Corporation tax revenues are derived from the following taxes:

1. The Franchise Tax and the Corporate Income Tax are levied at an 8.84 percent rate on profits. The former is imposed on corporations for the privilege of doing business in California, while the latter is imposed on corporations that derive income from California sources but are not sufficiently present to be classified as doing business in the state.

2. Banks and other financial corporations are subject to the franchise tax plus an additional tax at the rate of 2 percent on their net income. This additional tax is in lieu of personal property taxes and business license taxes.

3. The AMT is similar to that in federal law. In general, the AMT is based on a higher level of net income computed by adding back certain tax preferences. This tax is imposed at a rate of 6.65 percent.

4. A minimum Franchise Tax of up to $800 is imposed on corporations subject to the franchise tax but not on those subject to the corporate income tax. New corporations are exempted from the minimum franchise tax for the first year of incorporation.

5. Sub-Chapter S corporations are taxed at 1.5 percent of profits.

6. Fees paid by limited liability companies ("LLCs"), which account for 3.6 percent of corporation tax revenue, are considered "corporation taxes."

Six actions have been filed contending that the Legislature's modification of Revenue and Taxation Code Section 25128, which implemented the double-weighting of the sales factor in California's apportionment of income formula for the taxation of multistate business entities, is invalid and/or unconstitutional. Now consolidated in one matter and collectively referred to as *Gillette Company v. Franchise Tax Board ("Gillette")*, the plaintiffs contend that the single-weighted sales factor specified in Section 25128 prior to amendment was contained within the Multistate Tax Compact ("MTC") and therefore cannot be modified without repealing the legislation that enacted MTC. An adverse ruling in these cases would affect multiple taxpayers and create potential exposure to refund claims for past years of approximately $750 million. The trial court ruled for the state in each of these matters, but the California Court of Appeal ruled on October 2, 2012 in favor of the taxpayers. The Franchise Tax Board has requested and the California Supreme Court has accepted review of this case. If the *Gillette* taxpayers are ultimately successful in their suit for refund, the vast majority of the revenue loss may not occur for several years. See "LITIGATION – Tax Cases."

One significant revenue measure enacted as part of the 2012-13 Budget was repeal of the state's participation in MTC, as a response to the *Gillette* litigation. By repealing its participation in MTC, the state will ensure that most taxpayers will not be allowed to use the equal weighted sales formula for apportioning income for calendar year 2012 and later tax years. Nonetheless, the current ruling in the *Gillette* case could result in a revenue loss of up to $150 million in fiscal year 2012-13 (although these amounts could be recaptured if the state ultimately prevails in the case at the California Supreme Court).

Another portion of the legislation repealing the state's participation in MTC finds and declares that there is a common law doctrine stating that elections affecting the computation of tax must be made on original tax returns. This provision seeks to render ineffective most attempts by taxpayers to file amended returns and obtain retroactive refunds, in the event that the state ultimately loses the *Gillette* cases. However, the implementation of this provision is likely to engender further litigation and the outcome cannot be assured.

The following table shows actual and projected corporate income tax revenues:

TABLE 13
Corporate Income Tax Revenues
Fiscal Years 2007-08 through 2013-14

Fiscal Year	Dollars In Millions	Percent Total General Fund Revenues And Transfers
2007-08	$11,849	11.9%
2008-09	9,536	11.5
2009-10	9,115	10.5
2010-11	9,614	10.3
2011-12	7,233	8.3
2012-13[(e)]	7,509	7.6
2013-14[(e)]	8,508	8.8

(e) Estimated, see paragraph following Table 14.
Source: State of California, Department of Finance.

Legislation enacted in the budget acts of 2008, 2009, and 2010 is expected to significantly reduce corporation tax revenues. The third column of Table 14 shows that, while that legislation added over $1 billion of revenue in fiscal years 2008-09 and 2009-10, by fiscal year 2011-12, that legislation is expected to generate, on a net basis, a revenue loss of almost $1 billion. Starting in fiscal year 2012-13, that legislation is expected to generate revenue losses of about $1.2 billion per year. However, the passage of Proposition 39 on November 6, 2012 reverses portions of these recent tax changes. Proposition 39 is expected to generate revenue gains of $453 million in fiscal year 2012-13 and over $900 million in fiscal year 2013-14 and subsequent years. The legislatively enacted law changes, together with Proposition 39, are expected to generate a net revenue loss of $753 million in fiscal year 2012-13 and $258 million in fiscal year 2013-14. Not all of the revenue generated by Proposition 39, however, benefits the General Fund, as the measure dedicates about half of the new revenues in fiscal years 2013-14 to 2017-18 to energy programs. See the table below for the impact of legislation and Proposition 39 on prior fiscal years.

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TABLE 14
Impact of Legislation and Proposition 39 on Corporate Income Tax Revenues
Fiscal Years 2007-08 through 2013-14

(Dollars in Millions)

Fiscal Year	Total	Impact of Enacted Legislation	Impact of Proposition 39	Net Impact of Law Changes Since 2008
2007-08	$11,849	$0	$0	$0
2008-09	9,536	1,316	0	1,316
2009-10	9,115	1,448	0	1,448
2010-11	9,614	303	0	303
2011-12	7,233	(956)	0	(956)
2012-13	7,509[e]	(1,206)	453	(753)
2013-14	8,508[e]	(1,165)	907	(258)

[e] Estimated.
Source: State of California, Department of Finance.

As shown in the table above, state tax law changes made several years ago traded short-term revenue gains for reduced corporate taxes in later years, which are now being seen. Even with this factor, the state Department of Finance has noted that corporation tax revenues have lagged significantly behind projections for the past year or more. The Department of Finance cannot determine at this time why revenue has lagged. There are several factors, however, that may be contributing to this result, including (i) greater growth in the use of tax credits than was anticipated, (ii) inaccurate estimates of the liability impact of the recent tax law changes, (iii) law changes that have led to changes to the pattern of cash receipts have made it more difficult for tax analysts to interpret cash flows, and (iv) the possible ability of corporations to take advantage of new tax reduction techniques. There is a significant lag (as much as two years) between the time weakness in tax revenues appears and the availability of the final, detailed tax return data on which analysis can be made to explain the results, so the Department of Finance is uncertain at this time with respect to the causes of this revenue weakness, and whether it will persist in the future.

Insurance Tax

The majority of insurance written in California is subject to a 2.35 percent gross premium tax. For insurers, this premium tax takes the place of all other state and local taxes except those on real property and motor vehicles. Exceptions to the 2.35 percent rate are certain pension and profit-sharing plans which are taxed at the lesser rate of 0.5 percent, surplus lines and non-admitted insurance at 3 percent and ocean marine insurers at 5 percent of underwriting profits. To provide funding for the Healthy Families (California's Children's Health Insurance Program) and Medi-Cal programs, Chapter 11, Statutes of 2011 (AB 21) expanded the 2.35-percent gross premiums tax to the Medi-Cal managed care plans through June 30, 2012. Chapter 33, Statutes of 2013 (SB 78) includes provisions to reauthorize the gross premiums tax on Medi-Cal managed care plans from July 1, 2012 through June 30, 2013, and imposes a Managed Care Organization

("MCO") sales tax, equal to the state portion of the sales tax, on Medi-Cal managed care plans for fiscal years 2013-14 through 2015-16.

The BOE ruled in December 2006 that the premium tax that insurers pay should be calculated on the basis of cash receipts rather than the value of premiums written as had been required by the Department of Insurance. This ruling is expected to result in a total loss of about $400 million spread over several years; the impact was $15 million in fiscal year 2008-09, $0 million in fiscal year 2009-10, $2 million in fiscal year 2010-11, and is estimated to be $85 million in fiscal year 2012-13, $148 million in fiscal year 2013-14, and $149 million in fiscal year 2014-15.

Estate Tax; Other Taxes

The state estate tax is based on the state death tax credit allowed against the federal estate tax. The California Estate Tax is designed to pick up the maximum credit allowed against the federal estate tax return. The federal Economic Growth and Tax Relief Reconciliation Act of 2001 (the "Economic Growth and Tax Relief Reconciliation Act") phased out the federal estate tax through 2010. The provisions of this federal act expired after 2010. The recently enacted American Taxpayer Relief Act of 2012 permanently eliminated state death tax credit (and thus the state portion of estate tax under federal law) as of January 1, 2013. See Table 16 titled "Comparative Yield of State Taxes – All Funds-Fiscal Years 2007-08 through 2013-14."

Other General Fund taxes and licenses include: Inheritance and Gift Taxes; Cigarette Taxes; Alcoholic Beverage Taxes; Horse Racing License Fees; and Trailer Coach License Fees.

Special Fund Revenues

The state Constitution and statutes specify the uses of certain revenues. Such receipts are accounted for in various special funds. In general, special fund revenues comprise three categories of income:

- Receipts from tax levies which are allocated to specified functions, such as motor vehicle taxes and fees and certain taxes on tobacco products.

- Charges for certain services provided by the state government to individuals, businesses, or organizations, such as fees for the provision of business and professional licenses.

- Rental royalties and other receipts designated for particular purposes (e.g., oil and gas royalties).

Motor vehicle-related taxes and fees are projected to account for approximately 30 percent of all special fund revenues in fiscal year 2013-14. Principal sources of this income are motor vehicle fuel taxes, registration and weight fees and vehicle license fees. In fiscal year 2013-14, $12 billion is projected to come from the ownership or operation of motor vehicles. About $3.9 billion of this revenue is projected to be returned to local governments. The remainder will be available for various state programs related to transportation and services to vehicle owners. For a discussion of Proposition 1A of 2004, which replaced a portion of vehicle license fees with increased property tax revenues, see "STATE FINANCES – Local Governments."

Taxes on Tobacco Products

The state imposes an excise tax on cigarettes of 87 cents per pack and the equivalent rates on other tobacco products. Tobacco product excise tax revenues are earmarked as follows:

1. Fifty cents of the per-pack tax on cigarettes and the equivalent rate levied on non cigarette tobacco products are deposited in the California Children and Families First Trust Fund and are allocated primarily for early childhood development programs.

2. Twenty-five cents of the per-pack tax on cigarettes and the equivalent rates levied on non-cigarette tobacco products are allocated to the Cigarette and Tobacco Products Surtax Fund. These funds are appropriated for anti-tobacco education and research, indigent health services, and environmental and recreation programs.

3. Ten cents of the per-pack tax is allocated to the state's General Fund.

4. The remaining two cents of the per-pack tax is deposited into the Breast Cancer Fund.

Recent Tax Receipts

The following table shows the trend of major General Fund and total taxes per capita and per $100 of personal income for the past five fiscal years and, the current fiscal year.

TABLE 15
Recent Tax Receipts

	State Taxes Per Capita[a]		Taxes per $100 of Personal Income	
Fiscal Year	**General Fund**	**Total**	**General Fund**	**Total**
2008-09	$2,153.11	$2,579.07	$4.93	$5.90
2009-10	2,281.07	2,679.27	5.58	6.55
2010-11	2,409.83	2,866.19	5.75	6.84
2011-12[b]	2,205.20	2,830.70	5.04	6.46
2012-13[b][c]	2,491.33	3,130.48	5.45	6.85
2013-14[b][c]	2,490.28	3,165.04	5.37	6.83

[a] Data through fiscal year 2009-10 reflects population figures based on the 2010 Census. Data after fiscal year 2009-10 reflects July 1 population estimates benchmarked to the 2010 Census.

[b] Includes revenues from Proposition 30.

[c] Includes revenues from Proposition 39.

Source: State of California, Department of Finance.

The following table displays the actual and estimated revenues by major source for the past five fiscal years and the current fiscal year. This table shows taxes that provide revenue both to the General Fund and state special funds.

TABLE 16
Comparative Yield of State Taxes – All Funds
Fiscal Years 2008-09 through 2013-14
(Modified Accrual Basis)

(Dollars in Thousands)

Fiscal Year	Sales and Use [(a)]	Personal Income [(b)]	Corporation[(c)]	Tobacco	Inheritance, Estate and Gift [(d)]	Insurance[(e)]	Alcoholic Beverage	Horse Racing	Motor Vehicle Fuel [(f)]	Motor Vehicle Fees [(g)]
2008-09	31,390,845	44,360,228	9,535,679	1,000,434	245	2,053,850	323,934	30,737	3,162,299	5,636,427
2009-10	33,527,230	45,625,240	9,114,589	922,965	252	2,238,872	311,242	12,740	3,149,143	6,786,009
2010-11	33,443,592	50,508,431	9,613,595	906,807	0	2,307,021	334,178	13,078	5,705,527	6,568,834
2011-12	31,245,211	54,635,590	7,962,603	897,355	0	2,415,781	346,241	15,838	5,544,530	5,908,046
2012-13[(h)]	38,966,950	65,328,000	7,509,000	863,450	0	2,498,393	325,000	14,540	5,593,220	5,794,779
2013-14[(h)]	42,992,440	61,958,000	8,508,000	838,450	0	3,031,806	332,000	14,588	6,156,938	5,909,565

(a) These figures:

- Fiscal years 2008-09 through 2011-12 include allocations to the General Fund, Public Transportation Account, State Fiscal Recovery Fund, Local Public Safety Fund, and the Local Revenue Fund (Realignment 1991). The figures do not include the Bradley Burns tax, dedicated to city and county operations.
- Fiscal years 2012-13 and 2013-14 include allocations to the General Fund, Public Transportation Account, State Fiscal Recovery Fund, Local Public Safety Fund, and both Local Revenue Funds (Realignment 1991 and 2011), and the Bradley Burns tax, which is dedicated to city and county operations.
- For fiscal years 2008-09 through 2010-11, includes the impact of a temporary increase in the General Fund sales and use tax rate from 5 percent to 6 percent, effective April 1, 2009 through June 30, 2011.
- Beginning in fiscal year 2010-11, includes the impact of the fuel tax swap that eliminated the General Fund portion of sales and use tax on motor vehicle gasoline fuel sales.
- Beginning in fiscal year 2011-12, includes the impact of the 2011 Realignment which redirects revenue attributable to a rate of 1.0625 percent to the Local Revenue Fund 2011.
- Beginning in fiscal year 2012-13, includes the impact of Proposition 30. Proposition 30 temporarily increases the state sales tax by 0.25 percent effective January 1, 2013 through December 31, 2016. See "STATE FINANCES–Sources of Tax Revenue – Sales and Use Tax."

(b) These figures include the revenue estimate for a 1.0 percent surcharge on taxpayers with taxable income over $1 million, with the proceeds funding mental health programs pursuant to Proposition 63.

Starting in fiscal year 2011-12, the figures also include the impact of Proposition 30. Proposition 30 temporarily adds three tax brackets for taxable incomes beginning at $250,000 ($500,000 joint) with rates of 10.3 percent, 11.3 percent, and 12.3 percent effective retroactive to January 1, 2012 through December 31, 2018.

(Footnotes Continued on Following Page)

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[c] These figures include impact of legislation on corporate tax revenues in the budget acts of 2008, 2009 and 2010, which accelerated corporate tax (CT) collections in fiscal years 2008-09 through 2010-11, and reduced CT collections starting in fiscal year 2011-12. See "STATE FINANCES – Sources of Tax Revenue – Corporation Tax" for a discussion of the impact of legislation on corporate income tax revenues.

Starting in fiscal year 2012-13, these figures include the impact of Proposition 39, effective for tax years beginning January 1, 2013.

[d] From fiscal years 2008-09 through 2011-12, the state estate tax is based on the state death tax credit allowed against the federal estate tax. As a result, the federal Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) progressively reduced the state estate tax in calendar years 2002 through 2004 and eliminated it beginning in calendar year 2005. The EGTRRA was scheduled to sunset after 2010, at which time the federal estate tax would have been reinstated along with the state estate tax. The Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010, however, made changes to the estate tax for 2011 and 2012. One of those changes was an extension for 2011 and 2012 of the elimination of the state estate tax credit, which had been in effect since 2005.

The American Taxpayer Relief Act of 2012 permanently eliminated state death tax credit (and thus the state portion of estate tax) beginning January 1, 2013.

[e] Includes insurance tax on Medi-Cal managed care plans through June 30, 2012. Chapter 33, Statutes of 2013 (SB 78) includes provisions for a tax on Medi-Cal managed care plans for fiscal years 2012-13 through 2015-16. For fiscal year 2012-13, the tax rate will be equal to the gross premiums tax. For fiscal years 2013-14 through 2015-16, the tax will equal the state portion of the sales tax rate. For fiscal year 2013-14, this sales tax amount is $831.8 million and is included in the Insurance total. A Board of Equalization decision regarding the taxation of premiums on cash versus accrued basis has resulted in refunds of $15 million in fiscal year 2008-09, $0 million in fiscal year 2009-10, $2 million in fiscal year 2010-11, and estimated refunds of $85 million and $148 million in fiscal years 2012-13 and 2013-14, respectively.

[f] These figures include motor vehicle fuel tax (gasoline), use fuel tax (diesel and other fuels), and jet fuel tax.

Starting in fiscal year 2010-11, the figures include the revenue impact of the fuel tax swap that eliminated the General Fund portion of sales and use tax on motor vehicle gasoline fuel sales beginning in 2010-11.

Excise Tax on Gasoline fuel: As part of the fuel tax swap implemented beginning July 1, 2010, the excise tax rate on gasoline fuel was increased from 18 cents to 35.3 cents in fiscal year 2010-11. It was set at 35.7 cents in fiscal year 2011-12, 36 cents in fiscal year 2012-13, and 39.5 cents in fiscal year 2013-14. This rate will be adjusted each year to maintain revenue neutrality with the elimination of the General Fund portion of sales tax on gasoline fuel.

Excise Tax on Diesel fuel: Also as part of the fuel tax swap, the excise tax rate on diesel fuel was reduced from 18 cents to 13 cents in fiscal year 2011-12 and to 10 cents in fiscal year 2012-13 and 2013-14. This rate will also be adjusted each year to maintain revenue neutrality with a sales tax increase on diesel fuel.

[g] Registration and weight fees, motor vehicle license fees and other fees. See "STATE FINANCES – Local Governments."

Starting in fiscal year 2008-09 through fiscal year 2010-11, the figures include the impact of a temporary increase in the vehicle license fee from 0.65 percent to 1.15 percent, effective May 19, 2009 through June 30, 2011. Starting in fiscal year 2011-12, the vehicle license fee decreased from 1.15 percent to 0.65 percent.

[h] Estimated for fiscal years 2012-13 and 2013-14.

Note: This table includes revenues accruing both to the General Fund and special funds. Some revenue sources are dedicated to local governments.

Source: Actual amounts for fiscal years 2008-09 through 2011-12: State of California, Office of the State Controller.

Estimated amounts for fiscal years 2012-13 through 2013-14: State of California, Department of Finance.

State Expenditures

The following table summarizes the major categories of state expenditures, including both General Fund and special fund programs for fiscal years 2007-08 through 2011-12.

TABLE 17
Governmental Cost Funds (Budgetary Basis)
Schedule of Expenditures by Function and Character
Fiscal Years 2007-08 to 2011-12

(Dollars in Thousands)

	Fiscal Year				
	2007-08	2008-09	2009-10[d][e]	2010-11[d][e][f]	2011-12[d]
Function					
Legislative, Judicial, Executive					
Legislative	$ 338,482	$ 330,594	$ 323,371	$ 325,244	$ 331,052
Judicial	3,902,038	3,962,289	2,606,012	3,742,539	3,360,882
Executive	1,761,510	1,669,476	1,615,119	1,810,506	1,543,381
State and Consumer Services	1,272,910	1,248,522	1,079,608	1,173,185	1,249,034
Business, Transportation and Housing					
Business and Housing	245,062	228,408	215,295	227,899	239,838
Transportation[a]	10,058,388	7,331,284	7,178,962	7,109,753	5,452,535
Natural Resources	3,657,430	3,225,625	3,307,987	3,414,859	3,358,016
Environmental Protection	1,124,326	1,032,212	831,753	962,109	1,027,911
Health and Human Services	37,232,168	35,041,981	31,129,184	41,642,841	41,359,564
Correctional Programs	9,978,422	9,566,474	7,860,690	9,514,121	7,892,864
Education					
Education–K through 12	39,229,865	34,354,841	33,850,883	33,193,396	32,755,642
Higher Education	11,303,864	9,486,317	9,735,095	10,623,763	9,256,322
Labor and Workforce Development	421,116	414,307	374,059	370,993	700,449
General Government					
General Administration	1,796,460	1,728,781	1,711,273	1,757,991	1,712,184
Debt Service	4,988,637	5,693,895	6,049,251	6,222,307	6,561,871
Tax Relief	669,140	480,312	438,725	438,082	434,385
Shared Revenues	1,649,546	1,976,050	2,151,407	2,231,710	1,997,607
Other Statewide Expenditures	1,454,338	1,168,937	54,058	1,330,757	1,453,787
Expenditure Adjustment for Encumbrances [b]	(1,244,356)	551,826	1,785,703	18,316	2,195,656
Credits for Overhead Services by General Fund	(549,309)	(507,543)	(362,614)	(417,786)	(485,301)
Statewide Indirect Cost Recoveries	(88,045)	(94,458)	(80,454)	(100,543)	(109,807)
Total	$129,201,992	$ 118,890,130	$ 111,855,367	$ 125,592,042	$ 122,287,872
Character					
State Operations	$ 41,027,869	$ 38,101,282	$ 36,673,078	$ 40,451,395	$ 39,579,635
Local Assistance [c]	85,603,560	78,795,864	72,795,422	84,254,039	81,820,212
Capital Outlay	2,570,563	1,992,984	2,386,867	886,608	888,025
Total	$ 129,201,992	$ 118,890,130	$ 111,855,367	$ 125,592,042	$ 122,287,872

[a] For fiscal year 2007-08, the Transportation Investment Fund (Fund 3008) and the Transportation Deferred Investment Fund (Fund 3093) contracted for additional street and road repairs with monies provided by the General Fund per Revenue and Taxation Code Sections 7104 and 7107.

For fiscal year 2011-12, the Department of Transportation ("DOT") changed the basis of financial reporting from a modified accrual basis to a cash basis for the State Highway Account ("Fund 0042"), the Public Transportation Account ("Fund 0046"), the Traffic Congestion Relief Fund ("Fund 3007"), the Transportation Investment Fund ("Fund 3008"), and the Transportation Deferred Investment Fund ("Fund 3093"). This change resulted in a reduction of the reported expenditures by DOT in these funds for fiscal year 2011-12 due to expenditures incurred, but not paid in fiscal year 2011-12 not being accrued, and the fiscal year 2010-11 reported accruals being reversed. The change to cash basis financial reporting for these funds was done at the direction of the Department of Finance, in accordance with the following statutes: Streets and Highways Code Section 183(c), for Fund 0042; Public Utilities Code Section 99310.6, for Fund 0046; Government Code Section 14556.5(b), for Fund 3007; Revenue and Taxation Code Section 7104.3, for Fund 3008; and Revenue and Taxation Code Section 7105(g), for Fund 3093.

(Footnotes Continued on Following Page)

(Continued from Previous Page)

(b) For fiscal year 2008-09 Expenditure Adjustments for Encumbrances has an abnormal balance due to prior year reversal of over encumbered expenditures. Subsequent Budget adjustments per Executive Order S-09-08 issued July 31st did not allow for full expenditure of anticipated encumbered expenses. Health and Human Services, Corrections and Rehabilitation, and Higher Education had the most significant reductions. Fiscal years 2009-10 and 2010-11 have an abnormal balance due to the prior year reversal of over encumbered expenditures.

For fiscal year 2011-12, Expenditure Adjustments for Encumbrances has a large abnormal balance due to prior year reversal of over encumbered expenditures. The change to cash basis financial reporting the DOT in Funds 0042, 0046, 3007, 3008, and 3093 accounts for most of the abnormal balance.

(c) In fiscal year 2009-10, Proposition 1A of 2004 was suspended when Governor Schwarzenegger declared a fiscal emergency allowing the state to offset local assistance expenditures with $1.9 billion of property tax revenue borrowed from the local governments. The state repaid the obligation, plus interest, in June 2013. Additionally, $1.7 billion of local property tax revenues were shifted to offset General Fund costs in fiscal year 2009-10 and another $350 million in fiscal year 2010-11. and in fiscal year 2011-12 another $43 million were shifted.

(d) Executive Orders 10/11-A, 11/12-A and 12/13-A were issued by the Department of Finance, as authorized under Control Section 12.45 of the Budget Acts of 2009, 2010 and 2011, respectively, and pursuant to Government Code Sections 12472.5 and 13302, to defer the June 2010, June 2011 and June 2012 payroll expenditures for various governmental and nongovernmental cost funds to July 2010, July 2011 and July 2012. This affected all state departments paid through the uniform payroll system.

(e) The Department of Conservation ("DOC") did not submit the required year-end financial statements to the State Controller's Office for fiscal years 2009-10 and 2010-11 in time to be included in the Budgetary/Legal Basis Annual Report ("BLBAR"). The DOC amounts reported in the BLBAR include the June 30, 2010 and June 30, 2011 cash balances, plus accruals, derived from actual activity reported through November 30, 2010 and December 5, 2011, respectively.

(f) The State Air Resources Board ("ARB") did not submit the required year-end statements for the Motor Vehicle Account in the State Transportation Fund, to the State Controller's office for fiscal year 2010-11 in time to be included in the BLBAR. The Motor Vehicle Account amounts reported in the BLBAR include the ARB's June 30, 2011 cash balances plus estimated (not reconciled) accrual amounts provided by ARB.

Source: State of California, Office of the State Controller.

State Appropriations Limit

The state is subject to an annual appropriations limit imposed by Article XIII B of the state Constitution (the "Appropriations Limit"). The Appropriations Limit does not restrict appropriations to pay debt service on voter-authorized bonds.

Article XIII B prohibits the state from spending "appropriations subject to limitation" in excess of the Appropriations Limit. "Appropriations subject to limitation," with respect to the state, are authorizations to spend "proceeds of taxes," which consist of tax revenues, and certain other funds, including proceeds from regulatory licenses, user charges or other fees to the extent that such proceeds exceed "the cost reasonably borne by that entity in providing the regulation, product or service," but "proceeds of taxes" exclude most state subventions to local governments, tax refunds and some benefit payments such as unemployment insurance. No limit is imposed on appropriations of funds which are not "proceeds of taxes," such as reasonable user charges or fees and certain other non-tax funds.

There are various types of appropriations excluded from the Appropriations Limit. For example, debt service costs of bonds existing or authorized by January 1, 1979, or subsequently authorized by the voters, appropriations required to comply with mandates of courts or the federal government, appropriations for qualified capital outlay projects, appropriations for tax refunds, appropriations of revenues derived from any increase in gasoline taxes and motor vehicle weight fees above January 1, 1990 levels, and appropriation of certain special taxes imposed by initiative (e.g., cigarette and tobacco taxes) are all excluded. The Appropriations Limit may also be exceeded in cases of emergency.

The Appropriations Limit in each year is based on the Appropriations Limit for the prior year, adjusted annually for changes in state per capita personal income and changes in population, and adjusted, when applicable, for any transfer of financial responsibility of providing services to or from another unit of government or any transfer of the financial source for the provisions of services from tax proceeds to non-tax proceeds. The measurement of change in population is a blended average of statewide overall population growth, and change in attendance at local school and community college ("K-14") districts. The Appropriations Limit is tested over consecutive two-year periods. Any excess of the aggregate "proceeds of taxes" received over such two-year period above the combined Appropriations Limits for those two years, is divided equally between transfers to K-14 districts and refunds to taxpayers.

The Legislature has enacted legislation to implement Article XIII B which defines certain terms used in Article XIII B and sets forth the methods for determining the Appropriations Limit. California Government Code Section 7912 requires an estimate of the Appropriations Limit to be included in the 2013-14 Governor's Budget, and thereafter to be subject to the budget process and established in the Budget Act.

The following table shows the Appropriations Limit for fiscal years 2009-10 through 2013-14.

TABLE 18
State Appropriations Limit

(Dollars in Millions)

	Fiscal Year				
	2009-10	**2010-11**	**2011-12**	**2012-13**	**2013-14**
State Appropriations Limit	$80,984	$79,118	$81,726	$84,221	$89,716
Appropriations Subject to Limit	-56,372	-61,796	-61,952	-71,559[a]	-71,703[a]
Amount (Over)/Under Limit	$24,612	$17,322	$19,774	$12,662[a]	$18,013[a]

[a] Estimated/projected.

Source: State of California, Department of Finance.

Proposition 98 and K-14 Funding

General. On November 8, 1988, the voters of the state approved Proposition 98, a combined initiative constitutional amendment and statute called the "Classroom Instructional Improvement and Accountability Act." Proposition 98 changed state funding of public education below the university level and the operation of the Appropriations Limit, primarily by guaranteeing K-14 education a minimum level of funding (the "Proposition 98 guarantee"). Proposition 98 (as modified by Proposition 111, enacted on June 5, 1990) guarantees K-14 education the greater of: (a) in general, a fixed percentage of General Fund revenues ("Test 1"), or (b) the amount appropriated to K-14 education in the prior year, adjusted for changes in state per capita personal income and enrollment ("Test 2"). A third test replaces Test 2 in any year that the percentage growth in per capita General Fund revenues from the prior year plus one-half of one percent is less than the percentage growth in state per capita personal income ("Test 3").

Legislation adopted prior to the end of the 1988-89 fiscal year implementing Proposition 98 determined the K-14 education's funding guarantee under Test 1 to be 40.7 percent of General Fund tax revenues based on fiscal year 1986-87 appropriations. This percentage has since been adjusted to approximately 38.8 percent of fiscal year 1986-87 appropriations to account for subsequent changes in the allocation of local property taxes since these changes altered the share of General Fund revenues received by schools and other General Fund changes. The Proposition 98 guarantee has historically been calculated under Test 2, although Tests 1 and 3 have become more common in recent years. If Test 3 is used in any year, the difference between Test 3 and Test 2 becomes a "credit" (called the "maintenance factor") to schools and is paid to them in future years when per capita General Fund revenue growth exceeds per capita personal income growth.

Proposition 98 permits the Legislature, by a two-thirds vote of both Houses (in a bill separate from the Budget Act) and with the Governor's concurrence, to suspend the K-14 education's minimum funding guarantee for a one-year period. The amount of the suspension is added to the Proposition 98 maintenance factor, the repayment of which occurs according to a specified state constitutional formula, and eventually restores Proposition 98 funding to the level that would have been required in the absence of such a suspension. Suspending the minimum funding guarantee provides ongoing General Fund savings over multiple fiscal years until the Proposition 98 maintenance factor is fully repaid.

The Proposition 98 guarantee has been funded historically from two sources: local property taxes and the General Fund. Any amount not funded by local property taxes is funded by the General Fund. Thus, local property tax collections represent an offset to General Fund costs in a Test 2 or Test 3 year. The passage of Proposition 30 has temporarily created a third source of funds. The newly created fund, the Education Protection Account ("EPA"), is available to offset Proposition 98 General Fund expenditures for fiscal years 2012-13 through 2018-19, freeing up General Fund resources for other purposes. See "Funding for Fiscal Years 2012-13 and 2013-14" below.

The process for calculating the Proposition 98 guarantee involves recalculations for previous years based on revised estimates of state and local property taxes, average daily attendance ("ADA"), and civilian population. While some of these estimates are adjusted frequently, some may not be final for several years after the close of the fiscal year. Such changes in the estimates can result in significant adjustments to the guarantee, even if that year has ended. Therefore, additional appropriations may be required to fully satisfy the minimum guarantee for a prior year. These funds are referred to as "settle up" funds, and often include statutory language designating the fiscal year for which the funds count. The factors used to calculate Proposition 98 and how much settle-up is owed are considered final when certified as required by the state Education Code. Settle-up payments are made in future years at the discretion of the Legislature and the Governor.

Proposition 98 also contains provisions for the transfer of certain state tax revenues in excess of the Appropriations Limit to K-14 education in Test 1 years when additional moneys are available. No such transfer occurred for the 2011-12 and 2012-13 fiscal years, and no such transfer is anticipated for fiscal year 2013-14. See "STATE FINANCES – State Appropriations Limit."

Funding for Fiscal Years 2012-13 and 2013-14. The 2013-14 Budget includes the additional tax revenues generated by the passage of Proposition 30 in November, 2012. Proposition 30 requires that the resulting temporary increases in personal income tax and sales and use tax rates be deposited into the EPA. Appropriations from the EPA must be used to fund education expenditures and count towards meeting the Proposition 98 minimum guarantee. The funds deposited into the EPA offset $6.3 billion in base Proposition 98 guarantee costs that would have otherwise been funded by the General Fund in fiscal year 2013-14. In addition to Proposition 30 revenues, the passage of Proposition 39, the California Clean Energy Jobs Act, will provide a $558 million increase in the Proposition 98 minimum guarantee. Of this amount, $456 million will be transferred to the Clean Energy Jobs Creation Fund in support of energy efficiency related activities in public schools and community colleges.

The 2013-14 Budget Proposition 98 guarantee level includes changes in revenues and "rebenching" of the guarantee (i.e., a change in the minimum guarantee percentage of General Fund revenues). The major changes in revenues are the inclusion of the revenues generated from the passage of Proposition 30 and Proposition 39, the ongoing increase in local tax revenues resulting from the elimination of redevelopment agencies, and the distribution of cash assets previously held by redevelopment agencies. The fiscal year 2012-13 Proposition 98 guarantee is estimated to be $56.5 billion, of which the General Fund share is $40.5 billion, including $7.3 billion in EPA revenues, with local property taxes covering the balance. Proposition 98 funding in fiscal year 2013-14 is proposed to be $55.3 billion. The General Fund share in fiscal year 2013-14 is $39.1 billion, including $6.3 billion in EPA revenues. In fiscal year 2013-14, it is estimated that the state will be in a Test 3 year.

The Proposition 98 guarantee is also rebenched when the law requires an adjustment of the Test 1 percentage to reflect a shift in revenue or movement of programs into or out of the Proposition 98 guarantee. In fiscal year 2012-13, the Proposition 98 guarantee was rebenched to reflect the fund shift impact of a $2.1 billion increase (revised estimate) in offsetting local revenues as a result of the elimination of redevelopment agencies and the one-time distribution of cash assets held by redevelopment agencies. Additionally, an increase to the guarantee is made for special education mental health services in fiscal year 2012-13 for costs funded in fiscal year 2011-12 out of Proposition 63 funds. All rebenchings of the guarantee utilize a current value cost methodology, which results in a dollar for dollar change for each rebenching and provides a single and consistent methodology. Adjustments to the guarantee were made in fiscal year 2013-14 to reflect the one-time distribution of cash assets held by redevelopment agencies. The total impact of these rebenchings and the changes in revenues, in addition to other natural changes in Proposition 98 factors, result in the fiscal year 2013-14 Proposition 98 guarantee level of $55.3 billion.

The 2013-14 Budget reflects General Fund Proposition 98 expenditures in fiscal years 2011-12 through 2013-14, as outlined in the table below.

TABLE 19
Proposition 98 Funding

(Dollars in Millions)

	Fiscal Year					Change From Revised 2012-13 to Enacted 2013-14	
	2011-12		2012-13		2013-14		
	Enacted[a]	**Revised[c]**	**Enacted[b]**	**Revised [c]**	**Enacted[c]**	**Amount**	**Percent**
K-12 Proposition 98							
State General Fund	$29,413	$29,768	$26,467	$30,244	$29,741	$ (503)	(1.7)%
Education Protection Account			6,922	6,509	5,572	(937)	(14.4)%
Local property tax revenue[d]	13,823	12,125	14,342	13,760	13,936	176	1.3%
Subtotals [e]	$43,236	$41,893	$47,731	$50,513	$49,249	$(1,264)	(2.5)%
CCC Proposition 98							
State General Fund	$ 3,466	$ 3,279	$ 2,560	$ 2,896	$ 3,053	$ 157	5.4%
Education Protection Account			855	805	689	(116)	(14.4)%
Local property tax revenue[d]	1,949	1,977	2,403	2,251	2,290	39	1.7%
Subtotals [e]	$ 5,415	$ 5,256	$ 5,818	$ 5,952	$ 6,032	$ 80	1.3%
Total Proposition 98							
State General Fund	$32,879	$33,047	$29,027	$33,140	$32,794	$ (346)	(1.0)%
Education Protection Account			7,777	7,314	6,261	(1,053)	(14.4)%
Local property tax revenue[d]	15,772	14,102	16,745	16,011	16,226	214	1.3%
Totals[e]	$48,651	$47,149	$53,549	$56,465	$55,281	$ (1,184)	(2.1)%

(a) As of the 2011 Budget Act, June 30, 2011.

(b) As of the 2012 Budget Act, June 27, 2012.

(c) As of the 2013 Budget Act, June 27, 2013. In fiscal year 2011-12, the amount shown represents the Proposition 98 funded level, which is $89 million below the guarantee level. As a result, a settle-up obligation in a like amount is created.

(d) Beginning in fiscal year 2011-12, local property tax revenues include amounts shifted to schools as a result of the elimination of redevelopment agencies; and fiscal years 2012-13 and 2013-14 include the one-time distribution of cash assets held by redevelopment agencies.

(e) Totals may not add due to rounding.

Source: State of California, Department of Finance.

Future Obligations. As explained above under "General," there are two forms of future obligations for the state General Fund which may be created under Proposition 98: maintenance factor and settle-up payments. Both of these elements have been implemented in years leading up to fiscal year 2013-14. The following table shows the estimated Proposition 98 future obligations as of the 2013-14 Budget:

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TABLE 20
Proposition 98 Future Obligations Balances

(Dollars in Millions)

Year-End Balances:	Fiscal Year 2009-10 Estimated[a]	2010-11 Estimated[a]	2011-12 Estimated[a]	2012-13 Estimated[a]	2013-14 Estimated[a]
Maintenance Factor	$9,134	$10,320	$10,612	$6,605	$9,591
QEIA Settle-up[b]	1,951	1,531	410	410[c]	410
Other Settle-Up	1,413	1,415	1,504	1,504[c]	1,504

[a] Proposition 98 factors and appropriations have been certified through fiscal year 2008-09.

[b] The Quality Education Improvement Act ("QEIA") enacted the settlement of a lawsuit concerning the proper amount of the guarantee in fiscal years 2004-05 and 2005-06 that obligated the state to pay a total of $2.7 billion in settle-up based on a statutory repayment plan. The final payment will be made in fiscal year 2014-15.

[c] Included in "Underfunding of Proposition 98" in Table 7. See footnote (b) to Table 7.

Note: Proposition 98 budgetary deferrals are not included in this Table. The deferred amount included in the 2013-14 Budget (that is deferred from fiscal year 2013-14 to fiscal year 2014-15) is $6.2 billion, compared to $6.4 billion that was deferred from fiscal year 2012-13 into fiscal year 2013-14.

Proposition 98 maintenance factor payments are included in the multi-year projection (as shown in Table 3) developed by the Department of Finance based on factors known as of the 2013 Budget Act. The Proposition 98 maintenance factor is adjusted by average daily attendance and per capita personal income growth each year. Therefore, even if a payment is made in a year, the outstanding balance can increase. Payments required by statute are built into the multi-year projection as of the 2013 Budget Act totaling $4.4 billion in fiscal year 2012-13, $3.9 billion in fiscal year 2014-15, and $727 million in fiscal year 2015-16.

No Proposition 98 maintenance factor payment is required in 2013-14.

Local Governments

The primary units of local government in California are the 58 counties, which range in population from approximately 1,200 in Alpine County to approximately 9.9 million in Los Angeles County.

Constitutional and Statutory Limitations on Local Government

Counties are responsible for the provision of many basic services, including indigent health care, welfare, jails, and public safety in unincorporated areas. There are also 482 incorporated cities in California and thousands of special districts formed for education, utilities, and other services. The fiscal condition of local governments was changed when Proposition 13, which added Article XIII A to the state Constitution, was approved by California voters in 1978. Proposition 13 reduced and limited the future growth of property taxes and limited the ability of local governments to impose "special taxes" (those devoted to a specific purpose) without two-thirds voter approval. Although Proposition 13 limited property tax growth rates, it also has had a smoothing effect on property tax revenues, ensuring greater stability in annual revenues than existed before Proposition 13 passed.

Proposition 218, another constitutional amendment enacted by initiative in 1996, further limited the ability of local governments to raise taxes, fees, and other exactions. (The limitations include requiring a majority vote approval for general local tax increases, prohibiting fees for services in excess of the cost of providing such service, and providing that no fee may be charged for fire, police, or any other service widely available to the public.)

In the aftermath of Proposition 13, the state provided aid to local governments from the General Fund to make up some of the loss of property tax moneys, including assuming principal responsibility for funding K-12 schools and community colleges. During the recession of the early 1990s, the Legislature reduced the post-Proposition 13 aid to local government entities other than K-12 schools and community colleges by requiring cities and counties to transfer some of their property tax revenues to school districts. However, the Legislature also provided additional funding sources, such as sales taxes, and reduced certain mandates for local services funded by cities and counties. See "STATE FINANCES – Sources of Tax Revenue – Sales and Use Tax" for a discussion of the impact of the Economic Recovery Bond issuances on local sales taxes.

The 2004 Budget Act, related legislation and the enactment of Proposition 1A in 2004 and Proposition 22 in 2010 (described below) dramatically changed the state-local fiscal relationship. These constitutional and statutory changes implemented an agreement negotiated between the Governor and local government officials (the "state–local agreement") in connection with the 2004 Budget Act. One change relates to the reduction of the vehicle license fee ("VLF") rate from 2 percent to 0.65 percent of the market value of the vehicle. In order to protect local governments, which had previously received all VLF revenues, the 1.35 percent reduction in VLF revenue to cities and counties from this rate change was backfilled (or offset) by an increase in the amount of property tax revenues they receive. This worked to the benefit of local governments because the backfill amount annually increases in proportion to the growth in property tax revenues, which has historically grown at a higher rate than VLF revenues, although property tax revenues declined between 2009-10 and 2011-12. This arrangement continues without change in the 2013 Budget Act.

Pursuant to statutory changes made in conjunction with the 2009 Budget Act as initially enacted, the VLF rate increased from 0.65 percent to 1.15 percent effective May 19, 2009. Of this 0.50 percent increase, 0.35 percent flows to the General Fund, and 0.15 percent supports various law enforcement programs previously funded by the state General Fund. This increased VLF rate expired at the end of fiscal year 2010-11.

As part of the state-local agreement, voters at the November 2004 election approved Proposition 1A ("Proposition 1A of 2004"). Proposition 1A of 2004 amended the state Constitution to, among other things, reduce the Legislature's authority over local government revenue sources by placing restrictions on the state's access to local governments' property, sales, and VLF revenues as of November 3, 2004. A detailed description of the provisions of this constitutional amendment is set forth below under the caption "THE BUDGET PROCESS – Constraints on the Budget Process – Local Government Finance (Proposition 1A of 2004)."

The 2009 Budget Act (as amended by the revisions enacted on July 28, 2009) authorized the state to exercise its authority under Proposition 1A of 2004 to borrow an amount equal to about 8 percent of local property tax revenues, or $1.9 billion, which was required to be repaid within three years. State law was also enacted to create a securitization mechanism for local governments to sell their right to receive the state's payment obligations to a local government operated joint powers agency ("JPA"). This JPA sold bonds in a principal amount of $1.895 billion in November 2009 to pay the participating local governments their full property tax allocations when they normally would receive such allocations. Pursuant to Proposition 1A of 2004, the state repaid the local government borrowing (which in turn repaid the bonds of the JPA) in June 2013, from the General Fund.

Proposition 22, adopted on November 2, 2010, supersedes Proposition 1A of 2004 and completely prohibits any future borrowing by the state from local government funds, and generally prohibits the Legislature from making changes in local government funding sources. Allocation of local transportation funds cannot be changed without an extensive process. The Proposition 1A borrowing done as part of the 2009 Budget Act (as amended by the revisions enacted on July 28, 2009) was not affected by Proposition 22.

Actions in recent budgets have sought to use moneys from redevelopment agencies ("RDAs") to offset General Fund costs for Proposition 98. In a lawsuit relating to certain of these actions in fiscal years 2009-10 and 2010-11, which could have resulted in a General Fund liability of up to $2.1 billion, the trial court denied the plaintiff's petition and the appellate court affirmed the trial court ruling. This lawsuit is not impacted by the California Supreme Court ruling in the *Matosantos* case described below.

Redevelopment Agency Funds

The 2011 Budget Act included legislation (ABx1 27, Chapter 6, Statutes of 2011) seeking additional funds from RDAs as an alternative to the elimination of such agencies pursuant to the terms of related legislation (ABx1 26, Chapter 5, Statutes of 2011).

On December 29, 2011, in the case *California Redevelopment Association et al. v. Matosantos et al.*, the California Supreme Court upheld ABx1 26, which reaffirmed the state's ability to eliminate RDAs, but also ruled that ABx1 27, which required RDAs to remit payments to schools in order to avoid elimination, was unconstitutional. In accordance with the Court's order, RDAs were dissolved on February 1, 2012 pursuant to ABx1 26, and their functions have been taken over by successor agencies. (See "LITIGATION – Budget-Related Litigation – Actions Challenging Statutes Which Reformed California Redevelopment Law" for further information regarding the *Matosantos* case and other litigation on this subject.) Revenues that would have been directed to the RDAs are distributed to make "pass through" payments to local agencies that they would have received under prior law, and to successor agencies for retirement of the RDAs' debts (also known as enforceable obligations) and for limited administrative costs. The remaining revenues are distributed as property taxes to cities, counties, school and community college districts, and special districts under existing law.

Accurately estimating the property tax revenue available for the affected taxing entities after the payment of enforceable obligations was initially a challenge. This is because comprehensive information concerning the amount of property tax expended by the former RDAs for purposes that qualify as enforceable obligations was not available prior to the enactment of ABx1 26. Now that information from four payment cycles is available, the Department of Finance can provide better estimates of future Proposition 98 General Fund savings stemming from the RDA dissolution process.

The 2013 Budget Act anticipated $2.1 billion Proposition 98 General Fund savings resulting from the dissolution of RDAs in 2012-13, which is the same amount that was estimated at the 2013-14 Governor's Budget. For the 2013-14 Budget, Proposition 98 General Fund savings are anticipated to be $1.5 billion in fiscal year 2013-14, which is $400 million above the amount estimated at the 2013-14 Governor's Budget. On an ongoing basis, Proposition 98 General Fund savings are anticipated to be at least $825 million annually, which is $265 million higher than the 2013-14 Governor's Budget estimate.

The decline in the projected amount of property tax received by schools in fiscal year 2013-14 is primarily due to the fact that the one-time funds in fiscal year 2012-13 is significantly higher than that for fiscal year 2013-14 associated with the distribution to affected taxing entities of the former RDAs' unencumbered cash assets, as required by AB 1484 (Chapter 26, Statutes of 2012). As the debts of the former RDAs are gradually retired, the amount of property tax received by K-14 schools and the other affected taxing entities should show modest annual growth.

Local governments have disputed the implementation of AB 1484 and litigation is pending and expected to be filed in the future on this subject.

Property Tax Revenues

Although the property tax is a local revenue source, the amount of property tax generated each year has a substantial impact on the state budget because local property tax revenues allocated to K-14 schools typically offset General Fund expenditures. Assessed value growth is estimated based on twice yearly surveys of county assessors and evaluation of real estate trends.

Sales volumes and prices of new and existing homes and condominiums rose moderately from 2011 to 2012 (with activity in the 2012 calendar year driving fiscal year 2013-14 property tax revenues). This is the first time since 2005 that both sales volumes and prices have moved in a positive direction. This turnaround, coupled with a decline in the number of homes in foreclosure, indicates that the state's overall real estate market has stabilized, although there are still areas where sales volumes and property values continue to be flat or decline.

Statewide property tax revenues are estimated to increase 1.6 percent in fiscal year 2012-13 and 3.9 percent in fiscal year 2013-14. See Table 19 (Proposition 98 Funding) for information on the impact of these growth rates on the funding of the Proposition 98 guarantee. Property tax estimates used in the calculation of the guarantee are based on growth in statewide property taxes, but also include other factors such as excess tax, redevelopment agency payments, and Educational Revenue Augmentation Fund transfers.

Realigning Services to Local Governments

The 2011 Budget Act included a major realignment of public safety programs from the state to local governments ("AB 109"). The realignment was designed to move program and fiscal responsibility to the level of government that can best provide the service, eliminate duplication of effort, generate savings, and increase flexibility. The implementation of the Community Corrections Grant Program authorized by AB 109 moved lower-level offenders from state prisons to county supervision and reduced the number of parole violators in the state's prisons. Other realigned programs include local public safety programs, mental health, substance abuse, foster care, child welfare services, and adult protective services. The 2011 Realignment is funded through two sources: (1) a state special fund sales tax of 1.0625 percent (totaling $5.8 billion in fiscal year 2013-14) and (2) $467.3 million in vehicle license fees (for fiscal year 2013-14). As a result of the realignment, the state expects General Fund savings from the realigned programs to be about $2.5 billion annually beginning in fiscal year 2011-12. In fiscal year 2011-12, about $2.1 billion of these savings was achieved from a reduction in the Proposition 98 Guarantee, and that figure is currently estimated to grow to $2.2 billion in fiscal year 2012-13 and $2.5 billion in fiscal year 2013-14. A lawsuit was filed challenging this calculation of the Proposition 98 Guarantee and on June 1, 2012, the trial court ruled in favor of the state and denied the petition for writ of mandate for recalculation of the Guarantee; however, plaintiffs have appealed this decision. See "LITIGATION – Budget Related Litigation – Actions Challenging School Financing."

Economic Development and Job Creation

Chapter 69, Statutes of 2013 (AB 93) repealed provisions in current law related to economic development areas and created in its place a new program of job creation and economic development incentives. AB 93 was further amended by Chapter 70, Statutes of 2013 (SB 90). Currently, the state has two types of Economic Development Areas: Enterprise Zones and Local Agency Military Base Recovery Areas. Special tax incentives in the form of hiring credits, sales and use tax credits, business expense deductions, net operating loss deductions, net interest deductions, and employee wage credits are available to individuals and businesses that operate a business or invest in a business located within certain economically depressed areas in the state.

AB 93 ceases operation of the current economic development areas as of January 1, 2014. The sales tax credit provisions under the current program will be repealed effective January 1, 2014, and the hiring credit provisions will be repealed effective January 1, 2019. The hiring credit would continue to apply for qualified employees hired within the 60-month period prior to January 1, 2014, and the qualified wages paid would continue to qualify for the credit after January 1, 2014. Leftover credits from the current program may be carried forward to the succeeding 10 taxable years, if necessary.

AB 93 and SB 90 create a new program of job creation and economic development incentives by instituting a development program which includes the following elements:

- A sales exemption from the state portion of the sales and use tax on purchases of qualified tangible property for certain businesses primarily engaged in manufacturing, research and development;
- A hiring credit for qualifying full-time employees for businesses in certain designated census tract areas; and
- An incentive fund to provide a tax credit to certain businesses in exchange for investment and employment expansion in California.

Based on current projections, the provisions in AB 93 and SB 90 are expected to be revenue neutral over the next five fiscal years. In the long run, assuming the sunset dates for the new programs are not extended, substantial revenue increases would be expected.

Trial Courts

Prior to legislation enacted in 1997, local governments provided the majority of funding for the state's trial court system. The legislation consolidated the trial court funding at the state level in order to streamline the operation of the courts, provide a dedicated revenue source, and relieve fiscal pressure on the counties. In addition, legislation enacted in 2008 provides California's court system with increased fees and fines to expand and repair its infrastructure to address significant caseload increases and reduce delays. The fees raised by this legislation were intended to support debt service on lease revenue bonds and other appropriate evidences of indebtedness used to pay qualified infrastructure costs in an amount of up to $5 billion. The SPWB has issued $621.6 million in lease revenue bonds to date to finance such costs. Additional legislative authorization is required prior to the issuance of any additional lease-revenue bonds for court construction. The 2013 Budget Act includes $35 million in court construction funds to support the new Long Beach Courthouse service fee payment, which will increase to approximately $68 million and total approximately $2 billion over a period of 35 years.

The state's trial court system received approximately $1.7 billion in state resources in fiscal year 2012-13 and is projected to receive $1.9 billion in fiscal year 2013-14. In addition, $499 million in resources from counties in each fiscal year will support trial courts. The 2011 Budget Act permanently realigned $496 million in court security funding to counties as part of the public safety realignment, which is supported by sales tax revenues provided for county sheriffs. The 2012 Budget Act included a General Fund reduction of $544 million in fiscal year 2012-13, of which $486 million is fully offset by redirections from trial court reserves, the Administrative Office of the Courts, and court construction funds. The 2013 Budget Act includes $125 million in ongoing General Fund savings that were assumed as part of the 2012 Budget Act and also includes a one-time transfer of $200 million of court construction funds to the General Fund to support trial court operations. As a result of this transfer, the Judicial Council delayed 11 courthouse construction projects up to one year, but allowed nine of the most critical projects to continue. The 2013 Budget Act includes funding for these nine court construction projects.

Welfare System

Under the CalWORKs (as such term is defined herein) program, counties are given flexibility to develop their own plans, consistent with state law, to implement the program and to administer many of its elements. Counties are required to provide "general assistance" aid to certain persons who cannot obtain welfare from other programs.

Health and Human Services

CalWORKS

The state provides welfare benefits to certain adults and children living in the state. Although some of these benefits are available to legal noncitizens, the majority of these benefits are available only to citizens.

These benefits generally take the form of cash payments to beneficiaries, or programs pursuant to which beneficiaries receive food or assistance in procuring employment. Many of these programs are administered by counties within the state, and paid with a combination of federal, state and local funds. Counties are given flexibility to develop their own plans, consistent with state law, to implement the program and to administer many of its elements.

The federal government pays a substantial portion of welfare benefit costs, subject to a requirement that states provide significant matching funds. Federal law imposes detailed eligibility and programmatic requirements in order for states to be entitled to receive federal funds. Federal law also imposes time limits on program availability for individuals, and establishes certain work requirements. The primary federal law establishing funding and eligibility, and programmatic requirements is The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (P.L. 104–193, the "Law"). Significant elements of the Law include: (i) Temporary Assistance for Needy Families ("TANF"), a block grant program; and (ii) the Supplemental Nutrition Assistance Program at the federal level (referred to as "CalFresh" in California, and formerly known as "food stamps").

Chapter 270, Statutes of 1997, embodies California's response to the federal welfare systems, called California Work Opportunity and Responsibility to Kids ("CalWORKs"). Consistent with the federal law, CalWORKs contains time limits on the receipt of welfare aid. The centerpiece of CalWORKs is the linkage of eligibility to work participation requirements.

Caseload under CalWORKs is projected to decrease in fiscal year 2013-14 as compared to revised fiscal year 2012-13 levels. CalWORKs caseload projections are 561,912 cases in fiscal year 2012-13 and 559,559 cases in fiscal year 2013-14. The fiscal year 2013-14 projected caseload represents a major decline from the early 1990s, when caseload peaked at 921,000 cases in fiscal year 1994-95. CalWORKs became effective on January 1, 1998. At the federal and state levels, TANF and CalWORKs, respectively, replaced the former Aid to Families with Dependent Children program. CalWORKs caseload from 1998 through fiscal year 2013-14 is estimated to have declined by approximately 12.7 percent.

The state's required expenditures in connection with the Law are referred to as "Maintenance of Effort" or "MOE." California's required MOE is generally equal to 75 percent of federal fiscal year ("FFY") 1994 historic expenditures. However, in order to qualify for that level of MOE, the state is required to demonstrate a 50 percent work participation rate among all families. The federal government determined that the state failed to meet this requirement for FFYs 2007 through 2009, and the state is therefore subject to a penalty. The federal government waived the penalty for FFY 2007, but required the state to increase the required MOE to 80 percent of FFY 1994 historic expenditures. As a result, the state was required to increase its MOE expenditure by approximately $180 million. The 2013 Budget Act continues to reflect this increase in MOE spending. Currently, the state is seeking relief from the FFY 2008 and 2009 penalties. If the state is unsuccessful, and the state is unable to provide an acceptable corrective compliance plan, penalties (currently estimated to be approximately $47.7 million for FFY 2008 and $113 million for FFY 2009) may be imposed, which would be payable in future fiscal years. Any penalties from failing to meet federal work participation requirements would be in addition to the approximately $180 million increased MOE requirement.

In fiscal year 2012-13, $803.8 million in federal TANF was transferred to the California Student Aid Commission to offset General Fund costs in Cal Grants. For fiscal year 2013-14, $541.7 million in federal TANF will be transferred to the California Student Aid Commission for this purpose.

The following table shows CalWORKs caseload and General Fund expenditures for state fiscal years 2008-09 through 2013-14.

TABLE 21
CalWORKs Expenditures

(Dollars in Billions)

Fiscal Year	Caseload	General Fund Expenditures
2008-09	504,994	$1.948
2009-10	553,347	2.032
2010-11	586,659	2.240
2011-12[a]	575,988	1.158
2012-13[a] [b]	561,912	1.521
2013-14[a] [b] [c]	559,559	1.195

[a] Reflects $1.1 billion ongoing annual General Fund savings as a result of redirecting 1991-92 realignment revenues from mental health to fund CalWORKs grants, pursuant to Chapter 13, Statutes of 2011.

[b] Estimated.

[c] Reflects an anticipated $300 million General Fund savings through redirecting a portion of 1991-92 realignment revenues from indigent health to CalWORKs, pursuant to Chapter 24, Statutes of 2013.

Chapter 47, Statutes of 2012 (SB 1041) made significant changes to the CalWORKs programs as follows:

- Created a prospective 24-month time limit on cash assistance and employment services for adults. After two years, adults must meet federal work participation requirements to remain eligible for cash aid for up to 24 additional months.

- Provided counties some flexibility by allowing up to 20 percent of the adults to extend their time beyond 24 months to complete their educational goals or find a job.

- Provided up to two years for clients to transition to the new program and be provided the skills necessary to find employment as the economy continues to recover.

The 2013 Budget Act includes:

- $142.8 million General Fund to support the CalWORKs refocusing measures enacted by SB 1041. The additional resources are necessary to maximize successful outcomes under the new program structure.

- Partial year funding of $47.7 million General Fund to implement additional proven appraisal protocols, promote family stabilization and barrier removal, and provide enhanced subsidized employment opportunities.

- A five percent increase to CalWORKs grant levels, effective March 1, 2014, to be funded with 1991-92 realignment sales tax revenue growth funds. The grant increase is estimated to cost approximately $51 million in fiscal year 2013-14 and $150 million annually thereafter. To the extent actual sales tax growth revenues are insufficient to cover the cost of the grant increase, the state will address the shortfall using available federal TANF funds or state General Fund. Future grant increases are subject to projections of realignment sales tax growth revenues available after the ongoing cumulative costs of all prior grant increases are fully funded.

SSI/SSP

The federal Supplemental Security Income ("SSI") program provides a monthly cash benefit to eligible seniors and persons with disabilities who meet the program's income and resource requirements. In California, the SSI payment is augmented with a State Supplementary Payment ("SSP") grant. The 2013 Budget Act includes approximately $2.8 billion for the SSI/SSP program from the General Fund for fiscal year 2013-14, 1.2 percent more than the revised fiscal year 2012-13 funding level. The average monthly caseload in this program is estimated to be 1.3 million recipients in fiscal year 2013-14, a 0.9 percent increase over the revised fiscal year 2012-13 projected level.

Health Programs

Medi-Cal – Medi-Cal, California's Medicaid program is a health care entitlement program for low-income individuals and families who receive public assistance or otherwise lack health care coverage. Medi-Cal serves approximately one in five Californians. Federal law requires Medi-Cal to provide basic services such as doctor visits, laboratory tests, x-rays, hospital inpatient and outpatient care, hospice, skilled nursing care, and early periodic screening, diagnosis and treatment. Also, federal matching funds are available if states choose to provide any of numerous optional benefits. California's Federal Medical Assistance Percentage is 50 percent, which is the share of federal funding for standard program benefits. There are also federal funds in the Medi-Cal budget for a number of Medi-Cal programs or supplemental payments that are matched with local funds that do not appear in state funding totals or that receive a higher matching rate. A wide range of public and private providers and facilities delivers these services. Providers are reimbursed by the traditional fee-for-service method or by managed care plans that receive capitated payments from the state. Approximately 6.3 million Medi-Cal beneficiaries (more than half of the people receiving Medi-Cal benefits and services) are currently enrolled in managed care plans.

Average monthly caseload in Medi-Cal was 7.89 million in fiscal year 2012-13. Caseload is expected to increase in fiscal year 2013-14 by approximately $1.2 million, or 15.6 percent, to 9.117 million people. This includes approximately 969,000 additional Medi-Cal beneficiaries due to implementation of federal health care reform, and includes the shift of the remaining Healthy Families program beneficiaries that are scheduled to transition to the Medi-Cal program in fiscal year 2013-14.

The following table shows Medi-Cal expenditures for the fiscal years 2009-10 through 2012-13 and the proposed amounts for fiscal year 2013-14.

TABLE 22
Medi-Cal Expenditures

(Dollars in Billions)

Fiscal Year	General Fund	Other State Funds	Federal Funds	Total[(a)]
2009-10	10.2	0.8	27.8	38.8
2010-11	12.5	8.9	30.7	52.1
2011-12	15.2	2.1	26.4	43.7
2012-13[(b)]	14.9	7.8	34.0	56.8
2013-14[(b)]	16.1	10.1	45.3	71.6

(a) Totals may not add due to rounding.
(b) Estimated.

The 2013-14 Budget includes the following major General Fund elements:

- Savings of $895.2 million in fiscal year 2012-13 and $119.6 million in fiscal year 2013-14 due to a change in the scope of a demonstration project on delivery of health services related to, and delays in implementation of, the Coordinated Care Initiative. Chapter 33, Statutes of 2012 (SB 1008) and Chapter 45, Statutes of 2012 (SB 1036) authorized the Coordinated Care Initiative in which persons eligible for both Medicare and Medi-Cal (dual eligibles) will receive medical, behavioral health, long-term supports and services, and home and community-based services coordinated through a single health plan.

- An increase of $195.6 million in fiscal year 2013-14 to begin to pay for the federally required and optional expansion of coverage under federal health care reform. See "Health Care Reform."

- An increase of $299.1 million in fiscal year 2013-14 due to the transition of the Healthy Families program (California's Children's Health Insurance Program) from the Managed Risk Medical Insurance Board (MRMIB) to the Department of Health Care Services (DHCS). These costs are offset by savings in the MRMIB budget.

- An increase of $246.8 million in fiscal year 2013-14 for rate increases to Medi-Cal managed care health plans.

- Savings of $310 million in the second half of fiscal year 2013-14 from the extension of a hospital fee waiver beyond December 31, 2013, subject to enactment of further state legislation, which is currently being considered, and federal administrative approval, which is currently being sought but has not yet been granted. On June 22, 2012, DHCS received federal approval of the hospital fee waiver and inpatient and outpatient Medi-Cal fee-for-service ("FFS") State Plan Amendments authorized under Chapter 286, Statutes of 2011 (SB 335, Hernandez), which expires by December 31, 2013. The fee revenue is used to provide supplemental inpatient and outpatient FFS payments to private hospitals, direct grants to both designated and non-designated public hospitals, increases in Medi-Cal managed care capitation rates for reimbursements to hospitals, and funding to the state for children's healthcare coverage.

- Savings of $166.4 million in fiscal years 2012-13 and 2013-14 from the Gross Premiums Tax, and $304.6 million in fiscal year 2013-14 from the Managed Care Organization tax. The 2013-14 Budget authorized the retroactive extension of the Gross Premiums Tax on managed health care plans, which expired on June 30, 2012, and authorized the Managed Care Organization tax beginning July 1, 2013 for a period of three years.

Litigation is pending with respect to certain cost reductions implemented by the state. See "LITIGATION – Actions Regarding Medi-Cal Reimbursements and Fees."

Health Care Reform – The federal Affordable Care Act ("ACA") increases access to public and private health care coverage through various programmatic, regulatory, and tax incentive mechanisms. To expand coverage, the ACA provides for: (1) the health insurance exchange, a new marketplace in which individuals who do not have access to public coverage or affordable employer coverage can purchase insurance and access federal tax credits, and (2) two expansions of Medicaid – a mandatory expansion by simplifying rules affecting eligibility, enrollment, and retention; and an optional expansion to adults with incomes up to 138 percent of the federal poverty level. Additionally, the ACA requires specified rate increases for primary care for two years beginning January 1, 2013 and prohibits California from restricting eligibility primarily for the Medi-Cal and Healthy Families programs before the new coverage requirements go into effect in 2014.

Health care reform may result in a significant net increase of General Fund program costs in fiscal year 2013-14 and beyond. The net impact of health care reform on the General Fund will depend on a variety of factors, including levels of individual and employer participation, changes in insurance premiums, and savings resulting from the reform as beneficiaries in current state-only programs receive coverage through Medi-Cal or the California Health Benefit Exchange (Exchange), also known as Covered California, starting in 2014. The 2013 Budget Act appropriates $195.6 million from the General Fund for the costs of expanded eligibility and enhanced benefits under health care reform.

The 2013 Budget Act implements the optional expansion to include adults up to 138 percent of the federal poverty level using a state-based approach. Under the ACA, the federal government promises to initially pay for 100 percent of the costs for newly eligible individuals served under the optional expansion; federal funding will gradually decrease to 90 percent by 2020. Other costs will be shared 50-50. To mitigate against future risks to the General Fund, legislation implementing the optional expansion (Chapters 3 and 4, Statutes of 2013-14 First Extraordinary Session) (AB/SB X1 1) requires that reductions in federal funding below 90 percent be addressed in a timely manner through the annual state budget or legislative process. If, prior to January 1, 2018, federal funding under the ACA is reduced to 70 percent or less, the implementation of the optional expansion will cease within 12 months.

Today, as the provider of last resort, counties are responsible for indigent health care. Under the 1991 realignment, the state provides roughly $1.5 billion to counties to assist them in meeting their obligations. To receive these funds, counties must spend a required maintenance of effort of $343 million. Many counties spend additional funds on indigent care. Under health care reform, county costs and responsibilities for indigent health care are expected to decrease as uninsured individuals obtain health care coverage. The state, in turn, will bear increased responsibility for providing care to these newly eligible individuals through the Medi-Cal expansion. New legislation (Chapter 24, Statutes of 2013) (AB 85) specifies two mechanisms for determining county savings, depending on how counties currently deliver indigent care. Once determined, these savings will be redirected to fund local human services programs. The 12 public hospital counties and the 12 non-public health/non-County Medical Service Program counties will have the option to select one of two mechanisms by December 2013:

- Option 1 – The formula measures actual county health care costs and revenues for Medi-Cal beneficiaries and the uninsured, reflecting historic growth rates and appropriate limits on cost growth. The difference between total revenues and total costs will determine the savings. The state would receive 80 percent of any calculated savings, with the county retaining 20 percent of the savings to invest in the local health care delivery system or spend on public health activities.

- Option 2 – 60 percent of a county's health realignment allocation plus maintenance-of-effort will be redirected to local human services programs, and the county will retain 40 percent of this funding for providing public health services and to serve the remaining uninsured.

For counties participating in the County Medical Service Program, the Budget provides an alternative that is akin to Option 2.

County health care savings are estimated to be $300 million in fiscal year 2013-14. Actual savings will depend on the level of realignment revenues for those counties operating under the 60/40 formula and on the various factors used to determine costs and revenues for those counties using the mechanism described in Option 1. Out year savings for all counties will be estimated in January and May, prior to the start of the fiscal year and based on the most recent data available. A true-up process will be used to adjust funding to the extent actual county savings differ from initial estimates. Currently, savings to the counties are estimated to be $900 million in fiscal year 2014-15, and $1.3 billion in fiscal years 2015-16 and 2016-17. These savings will provide funding for certain services currently funded by the state.

Chapter 655, Statutes of 2010 ("AB 1602"), and Chapter 659, Statutes of 2010 ("SB 900"), established the Exchange as an independent entity in state government and outline the authorities and responsibilities of the Exchange and its governing board. The Exchange will provide a marketplace for individuals and small businesses to purchase health insurance by January 1, 2014. This entity will establish requirements for health plans to participate in the Exchange, standards and criteria for selecting health plans to be offered by the Exchange, and require the Exchange to provide an adequate selection of qualified health plans in each region of the state. The federal government initially awarded California $1 million to fund preliminary planning efforts related to the development of the Exchange. On August 12, 2011, the Exchange received a $39 million Level I Exchange Establishment grant to help the state design and develop this entity. This was followed by an award of $196 million in August 2012 for continued support of the Exchange's start-up, planning, and development activities through June 30, 2013 and an award of $674 million in January 2013 for continued support through 2014. After 2014, the Exchange must be self-supporting from fees paid by health plans and insurers participating in the Exchange. AB 1602 authorizes the Exchange to assess charges, as a part of premiums, on participating health plans and at rates reasonable to support the ongoing operations of the Exchange and maintain a prudent reserve.

California Department of Corrections and Rehabilitation

<u>General</u> – As one of the largest departments in state government, the California Department of Corrections and Rehabilitation ("CDCR") operates 36 youth and adult correctional facilities and 43 youth and adult camps. The CDCR also contracts for multiple adult parolee service centers and community correctional facilities. The CDCR operates an adult prisoner/mother facility, adult parole units and sub-units, parole outpatient clinics, licensed general acute care hospitals, regional parole headquarters, licensed correctional treatment centers, hemodialysis clinics, outpatient housing units, a correctional training center, a licensed skilled nursing facility, and a hospice program for the terminally ill. The CDCR has six regional accounting offices and leases approximately two million square feet of office space. The CDCR's infrastructure includes more than 40 million square feet of building space on more than 26,000 acres of land (40 square miles) statewide.

<u>Ruling Concerning Prison Population</u> – Pursuant to the ruling issued by a panel of three federal judges (affirmed by the United States Supreme Court), the state must reduce its prison population to 137.5 percent of the system's design capacity by June 27, 2013, equivalent to about 110,000 prisoners. In response, the state has reduced its prison population by more than 24,000 inmates due to realignment of non-serious, non-violent, non-sex offenders from state prisons to local jurisdictions under Chapter 15, Statutes of 2011 (AB 109). On January 7, 2013, the state defendants filed a motion to vacate or modify the three-judge court's population reduction order, citing improvements to its prison healthcare system and the substantial population reductions that have occurred since AB 109 was implemented on October 1, 2011. On April 11, 2013, the three-judge court denied the state defendants' motion, and issued an order requiring the state to reduce overall prison population to 137.5 percent of design capacity by December 31, 2013.

After additional briefing, on *June 20, 2013*, the three-judge court issued a comprehensive order requiring the state defendants to implement a plan to: increase medical and elderly parole; slow-down the return of certain prisoners housed out-of-state; expand the use of good time credits, prospectively and retroactively, to all prisoners; and release prisoners as needed to meet the population ceiling on December 31, 2013. *The state defendants filed requests for a stay of this order and appealed the order to the United States Supreme Court; these requests and the appeal have been denied.*

On September 12, 2013, Governor Brown signed into law Senate Bill 105, which appropriates $315 million to be used in different ways depending on whether the December 31st deadline *would remain in place*.

On September 24, 2013, *acting on a request from the state for an extension of the December 31, 2013 deadline*, the three-judge court provided an extension to January 27, 2014 for the state to comply with the 137.5% prison population cap. *On October 21, 2013 this deadline was extended to February 24, 2014.* It was also ordered that the parties immediately begin a meet and confer process regarding the state's request, to be facilitated by Court of Appeal Justice Peter Siggins. Justice Siggins is required to informally report to the three-judge court on the status of the discussions and provide his recommendations for future actions *on or before November 18,* 2013. Finally, the three-judge court ordered a stay of moving additional prisoners out-of-state during the meet and confer process and until further order by the three-judge court. SB 105 requires the Department of Finance to submit a report to the Legislature with updated fiscal estimates no later than 15 days after the three-judge court adjusts the date by which 137.5% capacity must be achieved. The Department of Finance submitted this report on October 1, 2013, stating that the 27-day extension is not expected to materially change the level of resources necessary to obtain the capacity authorized by SB 105. *On October 21, 2013, the three-judge court provided an additional extension of 28 days, changing the population cap deadline to February 24, 2014.*

<u>CDCR Budget</u> – The 2013 Budget Act includes total expenditures of $9.1 billion ($8.9 billion General Fund) for CDCR from all funding sources. As noted in the previous paragraph, an additional $315 million from the General Fund was appropriated to CDCR in September 2013. There is an additional $2.1 billion budgeted for capital outlay expenditures (see "Prison Construction Program" section). The CDCR budget includes funding for 59,856 positions at a

total cost for salaries and benefits of approximately $6.0 billion. Lease payments total $296.6 million, and the remaining funds are budgeted for operating expenses and equipment.

The 2013 Budget Act includes savings for CDCR of $1.3 billion General Fund in fiscal year 2013-14 related to implementation of AB 109. AB 109 shifted responsibility for short-term, lower-level offenders from the state to county jurisdictions. In addition, counties are responsible for community supervision of lower-level offenders upon completion of their prison sentences.

CDCR Population – The average daily adult inmate population is projected to decrease from 132,621 in fiscal year 2012-13, to 128,885 in fiscal year 2013-14, a reduction of 3,736 inmates. The average daily adult parole population is projected to decrease from 62,498 in fiscal year 2012-13, to 46,358 in fiscal year 2013-14, a reduction of 16,140 adult parolees. The decline in the adult inmate and adult parole population is related to the passage and implementation of AB 109.

The Division of Juvenile Justice's average daily institutional population is projected to decrease from 821 in fiscal year 2012-13, to 679 in fiscal year 2013-14. Pursuant to Chapter 41, Statutes of 2012, juvenile parole was terminated January 1, 2013 and all juveniles remaining on parole as of December 31, 2012 were discharged.

Litigation Concerning Prison Medical Care Services – The federal receiver, the court appointed individual who oversees CDCR's medical operations (the "Receiver"), has plans for the design and construction of additional facilities and improvements to existing facilities for inmates with medical or mental health care needs. All of these projects will be constructed at existing state correctional institutions. See "Prison Construction Program" below.

The 2013 Budget Act includes $1.628 billion General Fund for the Receiver's Medical Services and Pharmacy Programs, compared to the 2012 Budget Act, which totaled $1.630 billion General Fund.

In January 2012, a federal District Court judge ordered California officials to begin planning for the end of the federal Receivership of the state's prison medical programs. The judge, with jurisdiction over the CDCR medical care litigation, cited "significant progress" in improving California's prison medical care and stated that many of the goals of the Receivership had been accomplished. For these reasons, the judge ordered the State and the plaintiffs in the case to prepare a joint report on various aspects of post-Receiver planning. In response to this report, the court ordered the Receiver to work with CDCR to determine when the state will assume responsibility for particular tasks. To date, the Receiver has transitioned health care access units, which provide guarding and transportation for inmates accessing health care services, as well as the responsibility for planning for the activation of new construction that is primarily related to serving the health care needs of inmates.

Prison Construction Program – On May 3, 2007, the Governor signed AB 900 (Chapter 7, Statutes of 2007) ("AB 900"), which provides funding for an expansion of capacity in the state prison system to address housing and health care needs. As last amended on June 27, 2012 (Chapter 42, Statutes of 2012), AB 900 authorized approximately $2.1 billion for design and construction of state prison facilities that include the California Health Care Facility and the adjacent DeWitt Nelson Correctional Annex, located in the city of Stockton, and several other medical and mental health projects throughout the state, including the projects in the Health Care Facility Improvement Program. A number of the projects authorized with AB 900 authority have already been completed and occupied and several other projects are in construction and will be completed in calendar years 2013 and 2014. Of particular note, the California Health Care Facility opened in July 2013, and the DeWitt Nelson Correctional Annex is scheduled to begin occupancy in April 2014. In addition, the first several projects in the Health Care Facility Improvement Program have initiated design and it is anticipated that several others will be initiated during the 2013 calendar year.

The 2012 Budget Act included an additional $810 million of lease revenue bond financing authority for the design and construction of three new level II dorm facilities at one or more specified existing prisons. As required by statute, the SPWB has authorized the siting of these facilities. Two of these new dorm facilities are planned to be located adjacent to Mule Creek State Prison in the city of Ione and the third is planned to be located at Richard J. Donovan Correctional Facility in San Diego. It is estimated that construction will start in December 2013 and be completed in April 2016. A related provision in the 2012 Budget Act also requires the CDCR to remove all inmates from, cease operations of, and close the California Rehabilitation Center, located in the city of Norco, no later than either December 31, 2016, or six months after construction of these three Level II dorm facilities is completed, whichever is earlier. However, SB 105 suspended this closure indefinitely as the capacity at the Norco facility may be necessary for California's prison population to stay at or below the court-ordered population cap of 137.5 percent of design capacity.

Unemployment Insurance

The Unemployment Insurance ("UI") program is a federal-state program that provides weekly UI payments to eligible workers who lose their jobs through no fault of their own. To be eligible for benefits, a claimant must be able and available to work, seeking work, and be willing to accept a suitable job. The regular unemployment program is funded by unemployment tax contributions paid by employers for each covered worker.

Due to the high rate of unemployment, the employer contributions were not sufficient to cover the cost of the benefits to claimants during the recession. Commencing in January 2009, in accordance with federal law, the state began to fund deficits in the state UI Fund through a federal loan to support benefit payments. The UI Fund deficit was $10.2 billion at the end of calendar year 2012. Using current economic outlook and unemployment projections, absent changes to the UI Fund financing structure, the deficit is projected to be $9.9 billion at the end of calendar year 2013. Repayment of principal on this federal UI loan is strictly an employer responsibility, and not a liability of the state's General Fund. To ensure that the federal loan is repaid, when a state has an outstanding loan balance for two consecutive years, the federal government reduces the Federal Unemployment Tax Act ("FUTA") credit it gives to employers. This is equivalent to an increase in the FUTA tax on employers, and has the effect of paying off the federal UI loan. These changes have already started.

Pursuant to federal law, if the state is unable to repay the loan within the same year it is taken, state funds must be used to pay the annual interest payments on the borrowed funds.

While annual interest payments were waived under the American Recovery and Reinvestment Act of 2010, interest payments of $303.5 million and $308.2 million were paid in 2011 and 2012, respectively. Given the condition of the General Fund in those years, loans were authorized from the Unemployment Compensation Disability Fund to the General Fund to pay the UI interest expense. The interest payment for September 2013 is estimated to be $261.5 million, and this year will be paid from the General Fund. Interest will continue to accrue and be payable annually until the principal on the UI loan is repaid. Pursuant to federal law, the General Fund is not liable for repayment of the principal of this loan, which will be done over time by reducing federal tax credits to employers in the state.

The interest due after fiscal year 2013-14 will depend on a variety of factors, including the actual amount of the federal loan outstanding (which in turn will depend on the rate of unemployment, employer contributions to the UI Fund, and any state or federal law changes relating to the funding of the program) and the interest rate imposed by the federal government. In an effort to identify preferred alternatives to meet annual federal interest obligations, repay the federal loan, and return the state's UI Fund to solvency, the Secretary for Labor and Workforce Development is conducting a series of meetings to bring together key stakeholders, including business and labor.

Retiree Health Care Costs

In addition to a pension, described in the following section "PENSION TRUSTS," the state also provides postemployment health care and dental benefits to its employees and their spouses and dependents, when applicable, and, except as otherwise described below, utilizes a "pay-as-you-go" funding policy. These are sometimes referred to as "Other Postemployment Benefits" or "OPEB."

As of June 30, 2012, approximately 157,105 retirees were enrolled to receive health benefits and 130,726 to receive dental benefits. Generally, employees vest for those benefits after serving 10 years with the state. With 10 years of service credit, employees are entitled to 50 percent of the state's full contribution. This rate increases by 5 percent per year and with 20 years of service, the employee is entitled to the full 100/90 formula (as described below). Additional information on the State's OPEB plan can be found in the Comprehensive Annual Financial Report for the fiscal year ended June 30, 2012 included as APPENDIX G to this Official Statement.

Pursuant to the Governmental Accounting Standards Board Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, the state now reports on its liability for postemployment healthcare as well as other forms of postemployment benefits, such as life insurance, in its annual financial reports. The long-term costs for other postemployment benefits may negatively affect the state's financial reports and impact its credit rating if the state does not adequately manage such costs.

On February 21, 2013, the State Controller's Office released the state's latest OPEB actuarial valuation report by the private actuarial firm, Gabriel, Roeder, Smith & Company, which was tasked with calculating the state's liability for these benefits. The report was based on a variety of data and economic, demographic and healthcare trend assumptions described in the report. The primary assumption influencing Annual OPEB Costs and the Actuarial Accrued Liability ("AAL") is the assumed rate of return or discount rate on assets supporting the retiree healthcare liability. Based on PMIA's historical returns, investment policy and expected future returns, a discount rate of 4.50 percent was selected for the pay as you-go funding policy. The economic assumptions such as the price and wage inflation are assumed to be 3 percent and 3.25 percent, respectively. The actuarial valuation contained in the report covers the cost estimates for existing employees, retirees and dependents. The main objective of the report was to estimate the AAL, which is the present value of future retiree healthcare costs attributable to employee service earned in prior fiscal years.

The report looked at three different scenarios: (i) continuation of the "pay-as-you-go" policy; (ii) a "full funding" policy under which assets would be set aside to prepay the future obligations, similar to the way in which pension obligations are funded, and (iii) a "partial funding" policy, a hybrid of the two scenarios. According to the actuarial valuation as of June 30, 2012, the pay-as-you go funding policy results in an unfunded AAL of $63.84 billion as of June 30, 2012. Additionally, the pay-as-you go funding policy results in an annual OPEB cost of $4.99 billion, estimated employer contributions of $1.81 billion and an expected net OPEB obligation of $16.09 billion for fiscal year 2012-13. The annual required contribution for fiscal year 2013-14 is estimated at $5.03 billion.

If the previous assumptions had been exactly realized during the year, the actuarial liability would have increased to $65.6 billion as of June 30, 2012. The key factors contributing to a $1.76 billion change in expected actuarial liabilities had the previous assumptions been realized are:

- Favorable healthcare trend experience, resulting in a decrease in actuarial liabilities of approximately $2.93 billion.

- Demographic experience (including more members retiring, retiring earlier, and living longer than assumed) caused actuarial liabilities to decrease by $0.11 billion.

- Changes in OPEB related assumptions and methods (updating the aging factors and healthcare trend rates used to project the member's average healthcare claim costs after retirement) increased actuarial liabilities by $1.86 billion.

- As of January 1, 2013 the state-sponsored post-Medicare healthcare plans participate in the Employer Group Waiver ("EGWP"). The expected savings due to participation in the EGWP decreased liabilities by approximately $0.59 billion.

The valuation depended primarily on the interest discount rate assumption used to develop the present value of future benefits and on the assets available to pay benefits. The discount rate of 4.50 percent represents the long-term expectation of the earnings on the state's General Fund, which is invested in short-term securities in the PMIA. The State Controller's Office plans to issue an actuarial valuation report annually.

The following table is the historic annual OPEB cost summary and the projected schedule of funding progress as of the valuation date for the five fiscal years indicated below:

TABLE 23
OPEB Pay-As-You-Go Funding
Fiscal Years 2008-09 to 2012-13

(Dollars in Billions)

Fiscal Year	Annual OPEB Cost	Net Employer Contribution	Percentage of Annual OPEB Cost Contribution	Net OPEB Obligation	Unfunded Actuarial Accrued Liability [b]	Unfunded Actuarial Accrued Liability as Percent of Payroll [b]
2008-09	$ 3.73	$ 1.38	37 %	$ 4.69	$ 51.82	281 %
2009-10	3.93	1.37	35	7.25	59.91	341
2010-11	4.21	1.58	38	9.88	62.14	345
2011-12	4.74	1.72	36	12.91	63.84	341
2012-13[a]	4.99	1.81	36	16.09	N/A	N/A

[a] Net employer contribution and Net OPEB Obligation estimated for fiscal year ending June 30, 2013.

[b] Amounts are projected as of the valuation date.

Source: State of California OPEB Valuation as of June 30, 2012.

The following table illustrates the state's budget for postemployment benefits from fiscal years 2006-07 to 2013-14 and does not reflect any future liability for current employees or annuitants. It is anticipated that these costs will continue to grow in the future. The employer contribution for health premiums maintains the average 100/90 percent contribution formula established in the Government Code. Under this formula, the state averages the premiums of the four largest health benefit plans in order to calculate the maximum amount the state will contribute toward the retiree's health benefits. The state also contributes 90 percent of this average for the health benefits of each of the retiree's dependents. CSU employees fully vest for the 100/90 formula at 5 years of service. As noted below, employees in bargaining unit 12, hired after January 1, 2011, are subject to a longer vesting period.

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TABLE 24
Actual Costs/Budget For Other Postemployment Benefits
Fiscal Years 2006-07 Through 2013-14

(Dollars in Thousands)

Fiscal Year	Total Amount*	General Fund Portion
2006-07	$1,006,238	$1,006,238
2007-08	1,114,317	1,051,486
2008-09	1,183,495	1,146,932
2009-10	1,182,497	1,145,934
2010-11	1,386,839	1,351,008
2011-12	1,504,928	1,466,528
2012-13[(a)(b)]	1,356,747	1,320,798
2013-14[(a)]	1,498,266	1,494,218

(a) Estimated.

(b) Beginning in the 2012 Budget Act, CSU health care costs, which are $247.3 million ($240.3 million General Fund) for fiscal year 2012-13 and $275.2 million ($274.4 million General Fund) for 2013-14, are identified separately in the Budget. In contrast to other state employees, CSU eligible employees fully vest for the 100/90 formula after 5 years of service.

* "Pay-as-you-go" contributions from General Fund and Public Employee's Contingency Reserve Fund.

Source: Fiscal Years 2006-07 through 2011-12 Actuals. Fiscal Years 2012-13 and 2013-14 estimates – State of California, 2013 Budget Act.

Three state employee bargaining units have agreements which provide for some prefunding of OPEB liabilities. These units represent a little less than 10 percent of total state unionized employees.

In accordance with state law, the Bureau of State Audits periodically identifies what it believes to be "high risk" issues facing the state. The funding of OPEB liabilities has been identified as a high-risk issue in the California State Auditor Report 2013-601 dated September 2013.

PENSION TRUSTS

General

The principal retirement systems in which the state participates or contributes funds to are the California Public Employees' Retirement System ("CalPERS") and the California State Teachers' Retirement System ("CalSTRS"). The assets and liabilities of the funds administered by CalPERS and CalSTRS are included in the financial statements of the state as fiduciary funds. A summary description of CalPERS and CalSTRS is set forth in Note 24 (and the Schedule of Funding Progress included in the Required Supplementary Information) to the Audited Basic Financial Statements of the State of California for the Year Ended June 30, 2012. See "FINANCIAL STATEMENTS."

The University of California ("UC") maintains a separate retirement system. From fiscal years 1990-91 through 2011-12, no amounts from the state's General Fund directly contributed to UC's retirement system. The 2012 Budget Act and Chapter 31 of the Statutes of 2012 provided $89.1 million in state General Fund appropriations for UC's employer retirement contributions for fiscal year 2012-13; this funding does not constitute a state obligation to provide funding after fiscal year 2012-13 for additional UC employer retirement costs. The 2013

Budget Act does not allocate any of UC's appropriation specifically to fund its employer retirement costs. The 2013 Budget Act and Chapter 50 of the Statutes of 2013 shift funding for UC's general obligation and lease revenue bond debt service into UC's main support appropriation, authorize UC to restructure its debt, and require UC to use any savings from restructuring of debt to reduce the existing unfunded liability of the UC's retirement plan. Information about this system may be obtained directly from UC.

As described below, the obligation of the state to make payments to CalPERS and CalSTRS to fund retirement benefits constitutes a significant financial obligation. CalPERS and CalSTRS each currently have unfunded liabilities in the tens of billions of dollars. Retirement-related costs payable from the General Fund are expected to increase in the foreseeable future. The actual amount of such increases will depend on a variety of factors, including but not limited to investment returns, actuarial assumptions, experience, retirement benefit adjustments and, in the case of CalSTRS, statutory changes to contribution levels.

This section contains certain information relating to CalPERS and CalSTRS. The information is primarily derived from information produced by CalPERS and CalSTRS, their independent accountants and their actuaries. The state has not independently verified the information provided by CalPERS and CalSTRS and makes no representations nor expresses any opinion as to the accuracy of the information provided by CalPERS and CalSTRS.

The comprehensive annual financial reports of CalPERS and CalSTRS are available on their websites at www.calpers.ca.gov and www.calstrs.ca.gov, respectively. The CalPERS and CalSTRS websites also contain the most recent actuarial valuation reports, as well as other information concerning benefits and other matters. Such information is not incorporated by reference herein. The state cannot guarantee the accuracy of such information. Actuarial assessments are "forward-looking" information that reflect the judgment of the fiduciaries of the pension plans, and are based upon a variety of assumptions, one or more of which may not materialize or be changed in the future. Actuarial assessments will change with the future experience of the pension plans.

On June 25, 2012, the Governmental Accounting Standards Board ("GASB") approved two new standards with respect to pension accounting and financial reporting standards for state and local governments and pension plans. The new standards are set forth in GASB Statements 67 and 68 and will replace GASB Statement 27 and most of GASB Statements 25 and 50. The changes will impact the accounting treatment of pension plans in which state and local governments participate. Major changes include: 1) the inclusion of unfunded pension liabilities on the government's balance sheet (currently, such unfunded liabilities are typically included as notes to the government's financial statements); 2) more components of full pension costs will be shown as expenses regardless of actual contribution levels; 3) lower actuarial discount rates will be required to be used for underfunded plans in certain cases for purposes of the financial statements; 4) closed amortization periods for unfunded liabilities will be required to be used for certain purposes of the financial statements; and 5) the difference between expected and actual investment returns will be recognized over a closed five-year smoothing period. In addition, GASB Statement 68 states that, for pensions within the scope of the statement, a cost-sharing employer that does not have a special funding situation is required to recognize a net pension liability, deferred outflows of resources, deferred inflows of resources related to pensions, and pension expense based on its proportionate share of the net pension liability for benefits provided through the pension plan. Because the accounting standards do not require changes in funding policies, the full extent of the effect of the new standards on CalPERS and CalSTRS is not known at this time. The reporting requirements for pension plans will take effect for the fiscal year beginning mid-2013 and the reporting requirements for government employers will take effect for the fiscal year beginning mid-2014.

Pension Reform

The Legislature approved AB 340 (Chapter 296, Statutes of 2012), a comprehensive pension reform package affecting state and local government on August 31, 2012, and the Governor signed it into law on September 12, 2012. AB 340, known as the Public Employees' Pension Reform Act of 2013 ("PEPRA") implements lower defined-benefit formulas with higher retirement ages for new employees hired on or after January 1, 2013, and includes provisions to increase current employee contributions. Though PEPRA covers most public employees in state government, cities, counties, special districts, school districts, and community colleges, the following discussion relates only to PEPRA's impact on state employee retirement. PEPRA excludes judges, the University of California, and charter cities with independent pension systems from the new retirement plans; however, newly elected or appointed judges would be subject to the new cost-sharing provisions described below.

In a preliminary actuarial analysis, CalPERS noted savings to the state of $10.3 billion to $12.6 billion over the next 30 years due primarily to increased employee contributions and, as the workforce turns over, lower benefit formulas that will gradually reduce normal costs. PEPRA also directs state savings from additional employee contributions to be used toward additional payments on the state's unfunded liability, subject to Budget Act approval. The 2013 Budget Act includes an additional $67.1 million ($41.9 million General Fund) directed toward the state's unfunded pension liability to reflect the savings resulting from increased employee contributions under PEPRA.

Other provisions reduce the risk of the state incurring additional unfunded liabilities, including prohibiting retroactive benefits increases, generally prohibiting contribution holidays, and prohibiting purchases of additional non-qualified service credit ("air time").

Key changes to retirement plans affecting the state include:

- New, lower defined-benefit formulas that increase retirement ages for new public employees hired on or after January 1, 2013.

- For new employees, a cap on pensionable income of $113,700, or $136,440 (for employees not in Social Security). Annual increases on the cap would be limited to the Consumer Price Index for All Urban Consumers.

- A standard that employees pay at least 50 percent of normal costs.

- Establishes increases for current state civil service and related excluded employees who are not contributing at least half of normal costs.-

- New CSU (new member is defined by CalPERS as membership on or after January 1, 2013) and judicial branch employees will pay at least 50 percent of the normal cost or the current contribution rate of similarly situated employees, whichever is greater (SB 13 authorizes CSU, on or after January 1, 2019, to impose higher employee contribution rates on CSU members hired before January 1, 2013. SB 13 also directs savings from higher CSU employee contributions to be retained by the university).

Costs for OPEB are not addressed in PEPRA. However, later retirement ages will help reduce OPEB liabilities in the long term.

Provisions in PEPRA affecting the CalSTRS system do not change the state's statutory contribution rate and will not likely have a material effect on state contributions in the short term. However, potential additional employee contributions, limits on pensionable compensation, and higher retirement ages for new members will reduce pressure on the system's unfunded liabilities and potentially state contribution levels in the long term.

On February 14, 2013, CalSTRS submitted a report to the Legislature on the funding of the Defined Benefit Program (referred to in the state's 2012 Financial Statements and in this APPENDIX A as the "DB Program") in response to Senate Concurrent Resolution 105 ("SCR 105"). SCR 105 encouraged CalSTRS, "in consultation with affected stakeholders, including, but not limited to, the Department of Finance and organizations representing members and school employers, to develop at least three options to address the long-term funding needs of the DB Program in a manner that allocates any increased contributions among the members of the system, school employers, and the state, consistent with the contractual rights of existing members, and to submit those options to the Legislature before February 15, 2013." SCR 105 further provided that "It is the intent of the Legislature to enact legislation during the 2013-14 Regular Session that addresses the long-term funding needs of the Defined Benefit Program." There is no such legislation currently being considered.

Increased state contributions to CalSTRS, beyond current statutory requirements, are not included in the 2013 Budget Act.

The report stated that "the definitive approach to addressing the long-term funding needs of the DB Program is to fully fund the program over a period of 30 years or less" and that "if implemented on July 1, 2014, the total contribution rate from all sources would have to increase by the equivalent of a projected 15.1% of compensation to fully fund the program in 30 years." The report stated that "it is projected that such a change would require an increased initial total annual contribution at that time of about $4.5 billion from all combined sources." The report also discussed the options of establishing a lesser funding target or increasing the amortization period (both of which would not require similarly large contributions from combined sources). The report stated that "a delay in addressing the DB Program funding shortfall places the program at greater risk, particularly if there is another substantial market downturn."

CalPERS

General

At June 30, 2012, CalPERS administered a total of 12 funds, including four defined benefit retirement plans: the Public Employees' Retirement Fund ("PERF"), the Legislators' Retirement Fund ("LRF"), the Judges' Retirement Fund ("JRF"), and the Judges' Retirement Fund II ("JRF II"). (These plans, as well as the other plans administered by CalPERS, are described in the comprehensive financial reports of CalPERS, which can be found on CalPERS' website at www.calpers.ca.gov. Such information is not incorporated by reference herein.) The PERF, LRF, JRF, and JRF II are defined benefit pension plans which provide benefits based on members' years of service, age, final compensation, and benefit formula. In addition, benefits are provided for disability, death, and survivors of eligible members or beneficiaries. Certain summary information concerning PERF is set forth below. Certain summary information concerning LRF, JRF, and JRF II is set forth at the end of this section.

CalPERS is administered by a 13-member Board of Administration (the "CalPERS Board"), that includes the State Controller, State Director of the Department of Human Resources, and the State Treasurer, who serve ex officio. The other CalPERS Board members include a member elected by school employees, a member elected by retirees, a member elected by state employees, a member elected by public agency employees, a member designated by the State Personnel Board, a public representative appointed jointly by the Speaker of the Assembly and the Senate Rules Committee, an official of a life insurer appointed by the Governor, an elected local official appointed by the Governor, and two members elected by all employees.

PERF

PERF is a multiple-employer defined benefit retirement plan. In addition to the state, employer participants at June 30, 2012 included 1,576 public agencies and schools (representing more than 2,500 entities). CalPERS acts as the common investment and administrative agent for the member agencies. The state and schools (for "classified employees," which generally consist of school employees other than teachers) are required by law to participate in PERF. Other public agencies can elect whether or not to participate in PERF or administer their own plans. Members of PERF generally become fully vested in their retirement benefits earned to date after five years of credited service. Separate accounts are maintained for each employer participating in PERF, and separate actuarial valuations are performed for each individual employer's plan to determine the employer's periodic contribution rate and other information for the individual plan, based on the benefit formula selected by the employer and the individual plan's proportionate share of PERF assets.

Unless otherwise specified, the information relating to PERF provided in this section relates only to state employees participating in PERF. State employees include Executive Branch, California State University, Judicial, and Legislature employees.

Members

Benefits to state employees are paid according to the category of employment and the type of benefit coverage provided by the state. All employees in a covered class of employment who work on a half-time basis or more are eligible to participate in PERF. The five categories of membership applicable to state employees are set forth below. Certain of the categories also have "tiers" of membership. It is up to the employee to select his or her preferred membership tier. Different tiers may have different benefits, as well as different employee contribution requirements. The member categories are as follows:

Miscellaneous Members – staff, operational, supervisory, and all other eligible employees who are not in special membership categories.

Safety Members – employees whose principal duties are in active law enforcement or fire prevention and suppression work but are not defined as a State Peace Officer/Firefighter Member, or who occupy positions designated by law as Safety Member positions.

State Industrial Members – employees of the California Department of Corrections and Rehabilitation who have the same service retirement and other benefits as Miscellaneous Members, but who also have industrial death and disability benefits under certain limited circumstances.

State Peace Officer/Firefighter Members – employees who are involved in law enforcement, firefighting and fire suppression, public safety, protective services, or the management and supervision thereof, whose positions are defined as State Peace Officer/Firefighter Members in the Government Code or by the Department of Human Resources.

Patrol Members – California Highway Patrol officers and their related supervisors and managers.

The following table reflects the number of state employee members of PERF as of June 30, 2011 and June 30, 2012. (PERF's fiscal year commences July 1 and ends June 30 of the following year).

TABLE 25
PERF Membership (State Employees) as of June 30, 2011 and 2012

Category	2011	2012
Retirees	164,611	169,657
Survivors and Beneficiaries	25,959	26,567
Active Members	247,372	244,171
Inactive Members	88,850	91,428
Total	526,972	531,823

Source: CalPERS Comprehensive Annual Financial Report for Fiscal Years ended June 30, 2011 and June 30, 2012.

Retirement Benefits

For state employees, annual benefits depend on the particular employee's employment category and are generally determined by taking into account years of service credit, final compensation, and age of retirement. Depending on the employment category, annual benefits generally range from 2 percent of final compensation (generally meaning the average pay rate and special compensation over the last one year or three consecutive years of employment, unless the member elects a different period with a higher average) at age 55 for each year of service credit (applicable to Miscellaneous and State Industrial category members) to 3 percent of final compensation for each year of service for retirement at age 50 (for State Peace Officer/Firefighter category members). Annual benefits are also subject to annual cost of living adjustments (generally ranging from 2-3 percent) and an additional adjustment intended to preserve the "purchasing power" of the benefit. Benefits also generally include disability and death benefits. A detailed description of the benefits payable by PERF to state employees is set forth in CalPERS actuarial valuations.

Legislation enacted in October 2010 as part of the state's budget for fiscal year 2010-11 (SB 22, Chapter 3, Sixth Extraordinary Session of 2010) ("SBX6 22") made changes to the retirement formula for state employees hired after January 15, 2011, unless an earlier date was agreed upon in a collective bargaining agreement. Generally, the formula for receiving full retirement benefits was restored to the provisions in effect prior to 1999, when a law increased the percentage formula and reduced the age at which employees could obtain maximum benefits; these formulas vary depending on the category of employment. SBX6 22 also addressed the problem of pension "spiking" by generally requiring the retirement formula for future employees not currently in the three-year formula to be based on an average of pay in three consecutive years, rather than being based on the single highest year's pay. These reforms will not significantly impact state retirement costs until many years in the future. However, there are also current savings from most existing and future employees contributing a greater percentage, ranging from two to five percent, of their salaries toward future pension benefits. These increases were collectively bargained and extended to most non-represented employees.

The Legislature approved AB 340, a comprehensive pension reform package affecting state and local government on August 31, 2012, which the Governor signed into law on September 12, 2012. The legislation increased the retirement age and lowered retirement benefits for most new state and local government employees hired on or after January 1, 2013. See "PENSION TRUSTS – Pension Reform."

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The following table shows the amount of benefits paid from PERF for fiscal years 2006-07 through 2011-12.

TABLE 26
PERF (State Only)
Schedule of Benefits Paid

(Dollars in Millions)

Fiscal Year	Amount of Benefits Paid
2006-07	$4,352
2007-08	4,741
2008-09	5,037
2009-10	5,485
2010-11	6,017
2011-12	6,711

Source: CalPERS State and Schools Actuarial Valuation for fiscal years ended June 30, 2007 through June 30, 2012.

Member Contributions

The benefits for state employees in PERF are funded by contributions from members, the state, and earnings from investments. Member and state contributions are a percentage of applicable member compensation. Member contribution rates are defined by law and vary by bargaining units within the same employee classification. The required contribution rates of active plan members are based on a percentage of salary in excess of a base compensation amount ranging from $0 to $863 monthly, and range from 1.5 to 12 percent.

Actuarial Methods

Generally, the ultimate cost that PERF incurs is equal to benefits paid plus the expenses resulting from administration. These costs are paid through contributions to the plan and investment earnings on PERF's assets. Using the state plan's schedule of benefits, member data, and a set of actuarial assumptions, CalPERS' actuary estimates the cost of the benefits to be paid. Then, using the actuarial funding method determined by CalPERS (as described below), the actuary allocates these costs to the fiscal years within the employee's career. CalPERS' financial objective is to fund in a manner which keeps contribution rates approximately as a level percentage of payroll from generation to generation, while accumulating sufficient assets over each member's working career. The primary funding method used to accomplish this objective is the "Entry Age Normal Cost Method." New GASB standards will require all states and local governments with pension liabilities to use the Entry Age Normal Cost Method beginning in fiscal year 2014-15 if they are not already doing so. Annual actuarial valuations are performed as of each June 30. Information through the most recent valuation date of June 30, 2012 is set forth below. According to CalPERS, the actuarial assumptions and methods used by CalPERS for funding purposes meet the current parameters set for disclosures presented in the Financial Section by GASB Statements 25 and 27.

Under the Entry Age Normal Cost Method, projected benefits are determined for all members. For active members, liabilities are spread in a manner that produces level annual costs as a level percent of pay in each year from the age of hire (entry age) to the assumed retirement age. The cost allocated to the current fiscal year is called the "normal cost." The Actuarial Accrued Liability ("AAL") for active members is then calculated as the portion of the total cost of the plan allocated to prior years. The AAL for members currently receiving benefits, for active members beyond the assumed retirement age, and for inactive members entitled to deferred benefits is equal to the present value of the benefits expected to be paid. No normal costs are applicable for these participants. The excess of the total AAL over the value of plan assets is called the unfunded actuarial accrued liability. The required contribution is then determined by adding the normal cost and an amortization of the unfunded liability as a level percentage of assumed future payroll. With respect to CalPERS, the unfunded liability is broken down into components, or bases, according to their date of origin and the cause that gave rise to that component. A component of the unfunded liability that arose due to a change in plan provisions or in actuarial methods or assumptions is separately tracked and amortized over a declining 20-year period. The actuarial assumptions discussed below are used to determine projected benefits. The effect of differences between those assumptions and the actual experience of the plan is calculated each year when the annual actuarial valuation is performed. These differences are actuarial gains or losses. Gains and losses are tracked separately and amortized over a rolling 30-year period (except as described below with respect to gains and losses in fiscal years 2008-09 through 2010-11). A maximum 30-year amortization payment on the entire unfunded liability is enforced on the amortization methods described above. In addition, when the amortization methods described above result in either mathematical inconsistencies or unreasonable actuarial results, all unfunded liability components are combined into a single base and amortized over a period of time, as determined by the CalPERS Chief Actuary. There is a minimum employer contribution equal to normal cost, less 30-year amortization of surplus (negative unfunded liability), if any. In 2009, the CalPERS Board adopted a change to the amortization policy, described in the following section. This change resulted in all actuarial gains and losses for fiscal years 2008-09, 2009-10, and 2010-11 to be amortized over a fixed 30-year period instead of a rolling 30-year period. The rolling 30-year period for amortization resumed with actuarial gains and losses for fiscal year 2011-12. The CalPERS Board recently adopted new amortization and smoothing methodologies. The new methodologies replace the current 15-year asset-smoothing policy with a 5-year direct-rate smoothing process and replace the current 30-year rolling amortization of actuarial gains and losses with a 30-year fixed amortization period. See the following section for further detail.

Actuarial Valuation; Determination of Required Contributions

The required state contributions to PERF are determined on an annual basis by the CalPERS Chief Actuary. The actuary uses demographic and other data (such as employee age, salary, and service credits) and various assumptions (such as estimated salary increases, interest rates, employee turnover, and mortality and disability rates) to determine the amount that the state must contribute in a given year to provide sufficient funds to PERF to pay benefits when due. The actuary then produces a report, called the "actuarial valuation," in which the actuary reports on the assets, liabilities, and required contribution for the following fiscal year. State law requires the state to make the actuarially-required contribution to PERF each year.

A portion of the actuarial valuations performed by CalPERS actuaries are audited each year by an independent actuarial firm. The actuarial valuations specific to state employees are audited every three years. The most recent audit was for the June 30, 2009 actuarial valuation and was completed in the fall of 2010. The audit for the June 30, 2012 actuarial valuation is expected to be completed in February or March of 2014.

The market value of assets measures the value of the assets available in the pension plan to pay benefits. The actuarial value of assets is used to determine the required employer contributions. Various methods exist for calculating the actuarial value of assets. Since 2005, CalPERS has recognized investment gains and losses on the market value of assets equally over a 15-year period when determining the actuarial value of assets. (This is referred to as "smoothing.") The recognized portion is added to the gains and losses and (except as described herein) is amortized over a rolling 30-year period (as described herein under "Actuarial Methods"). This is currently an approved method for determining actuarial value of assets under GASB Statements 25 and 27. Asset smoothing delays recognition of gains and losses, however, thereby providing an actuarial value of assets that does not reflect the market value of pension plan assets at the time of measurement. As a result, presenting the actuarial value of assets as determined using "smoothing" 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. As discussed under the caption "PENSION TRUSTS – General," beginning in fiscal year 2014-15, GASB Statement 68 will require state and local governments with pension liabilities to recognize the difference between expected and actual investment returns over a closed 5-year period. CalPERS will continue to set contributions based on an actuarial value basis until fiscal year 2015-16, at which time CalPERS will implement a new direct-rate smoothing policy as described below.

In addition to the use of "smoothing," as described above, when CalPERS sets contribution rates, the actuarial value of assets generally cannot be more than 120 percent of the market value or less than 80 percent of the market value (referred to as the "corridor"). Any asset value changes outside these ranges will be recognized immediately, and will result in a greater impact on future state contribution rates. However, in 2009 CalPERS adjusted the "corridor" to mitigate the effects of a negative 24 percent fiscal year 2008-09 investment loss.

According to CalPERS, the 3-year phase-in of the fiscal year 2008-09 investment loss is achieved by temporarily relaxing the constraints on the smoothed value of assets. Previously, the actuarial value of assets could not be more than 120 percent of the market value or less than 80 percent of the market value. Under the 3-year phase in, assets are treated as follows:

1. For the June 30, 2009 actuarial valuations of the State plans setting the contribution requirements for fiscal year 2010-11, the actuarial value of assets cannot be more than 140 percent of the market value or less than 60 percent of the market value.

2. For the June 30, 2010 actuarial valuations of the State plans setting the contribution requirements for fiscal year 2011-12, the actuarial value of assets cannot be more than 130 percent of the market value or less than 70 percent of the market value.

3. For the June 30, 2011 actuarial valuations of the State plans setting the contribution requirements for fiscal year 2012-13, the actuarial value of assets cannot be more than 120 percent of the market value or less than 80 percent of the market value.

Lastly, the asset loss outside of the 80 – 120 percent corridor will be isolated, and paid down with a fixed and certain 30-year amortization schedule. By utilizing a fixed and certain 30-year payment schedule, these losses will be paid in full at the end of 30 years, and will be independent of any investment gain/loss experienced by the remaining portfolio as a whole.

The use of "smoothing" and the "corridor" described above will mitigate short term increases in the state's required annual contribution. While this will limit extreme increases in the state's required annual contribution to CalPERS in the near term, absent investment returns significantly over and above the 7.5 percent assumed by CalPERS, it is expected to result in significantly higher required contributions in future fiscal years. Depending on actual investment returns and other factors, the state's required annual contribution to PERF could increase significantly. The contribution, not including CSU, is estimated to be $3.6 billion for fiscal year 2013-14, approximately $1.8 billion of which is payable from the General Fund. In addition, CSU's contribution is estimated to be approximately $470.1 million for fiscal year 2013-14, approximately $469.8 million of which is payable from the General Fund.

At the April 16 and 17, 2013, meetings, the CalPERS Board approved a plan to replace the current 15-year asset-smoothing policy with a 5-year direct-rate smoothing process and replace the current 30-year rolling amortization of unfunded liabilities with a 30-year fixed amortization period. The Chief Actuary said the approach provides a single measure of funded status and unfunded liabilities, less volatility in extreme years, a faster path to full funding, and more transparency to employers about future contribution rates. These changes will accelerate the repayment of unfunded liabilities (including 2008-09 investment losses) of the state plans in the near term. Under the CalPERS Board action, actual rates for the state will not be set using the new methods until fiscal year 2015-16, reflected in the June 30, 2014 valuation. The impact of the new amortization and smoothing policies are estimated to increase state retirement contributions (including CSU) by $200 million in fiscal year 2015-16 and $400 million in fiscal year 2016-17, roughly half of those increases coming from the General Fund.

Actuarial Assumptions

The CalPERS Chief Actuary considers various factors in determining the assumptions to be used in preparing the actuarial report. Demographic assumptions are based on a study of the actual history of retirement, rates of termination/separation of employment, years of life expectancy after retirement, disability, and other factors. This experience study is generally done once every four years. The most recent experience study was completed in 2010 in connection with the preparation of actuarial recommendations by the CalPERS Chief Actuary as described below. The following table sets forth the certain economic actuarial assumptions for the fiscal years ended June 30, 2009 through June 30, 2012.

TABLE 27
Certain Actuarial Assumptions Utilized for PERF

Actuarial Assumption	2009	2010	2011	2012
Investment Returns	7.75%	7.75%	7.50%	7.50%
Inflation	3.00	3.00	2.75	2.75
Salary Increase (Total Payroll)	3.25	3.25	3.00	3.00

Source: CalPERS State and Schools Actuarial Valuation for fiscal years ended June 30, 2009 through June 30, 2012.

Funding Status

The following table sets forth the schedule of funding progress relating to the state's participation in PERF as of the ten most recent actuarial valuation dates. Funding progress is measured by a comparison of the state's share of PERF assets to pay state employee benefits with plan liabilities.

As reflected in the actuarial valuation report for the fiscal year ended June 30, 2012, the investment return for the PERF in fiscal year 2011-12 was 0.1 percent. As a result of this investment return, the funded ratio on an MVA basis was approximately 66.1 percent as of June 30, 2012, as compared to approximately 70.3 percent as of June 30, 2011, and the unfunded liability was approximately $45.5 billion on an MVA basis as of June 30, 2012, as compared to approximately $38.5 billion on an MVA basis as of June 30, 2011.

At the CalPERS Finance and Administration Committee meeting on June 18, 2013, staff presented the employer retirement contribution rates and other actuarial information to be incorporated into the June 30, 2012 Actuarial Valuation. The full CalPERS Board adopted these items on June 19, 2013. The full June 30, 2012 Actuarial Valuation was released on September 27, 2013.

The actuarial report for the fiscal year ended June 30, 2012 can be found on the CalPERS website at http://www.calpers.ca.gov/eip-docs/about/pubs/employer/2012-st-body.pdf.

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TABLE 28
PERF Schedule of Funding Progress
State Employees Only
(Fiscal Years Ended June 30)

(Dollars in Millions)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
Market Value of Assets (MVA)	$56,843	$65,488	$74,050	$81,968	$96,988	$91,349	$68,179	$76,266	$91,159	$88,810
Actuarial Value of Assets (AVA)	62,515	67,081	71,830	77,143	83,439	89,304	93,377	97,346	102,452	106,145
Actuarial Accrued Liabilities (AAL)-entry age	74,450	79,800	86,595	92,557	100,352	107,642	116,827	121,446	129,648	134,314
Excess of Market Value of Assets over AAL or Surplus (Unfunded) Actuarial Accrued Liabilities (UAAL) MVA Basis	(17,607)	(14,312)	(12,545)	(10,589)	(3,364)	(16,293)	(48,648)	(45,180)	(38,489)	(45,504)
Excess of Actuarial Value of Assets over AAL or Surplus (Unfunded) Actuarial Accrued Liabilities (UAAL) AVA Basis	(11,935)	(12,719)	(14,765)	(15,414)	(16,913)	(18,338)	(23,450)	(24,100)	(27,195)	(28,169)
Covered Payroll	12,628	12,624	12,935	13,299	14,571	15,890	16,333	16,281	16,212	15,680
Funded Ratio (MVA)	76.4 %	82.1 %	85.5 %	88.6%	96.6%	84.9%	58.4%	62.8%	70.3%	66.1%
Funded Ratio (AVA)	84.0%	84.1%	82.9%	83.3%	83.1%	83.0%	79.9%	80.2%	79.0%	79.0%

Source: CalPERS State and Schools Actuarial Valuation, Fiscal Year Ended June 30, 2012 and prior years.

State Contributions

As described above, required contributions to PERF are determined annually on an actuarial basis. Payments into PERF are made from the state and from employee contributions. State contributions are made from the General Fund, special funds, and non-governmental cost funds. From fiscal years 2006-07 to 2013-14, a range of approximately 55 to 63 percent of the state contributions to PERF are made from the General Fund. Table 29 shows the state's actual contributions to PERF for fiscal years 2006-07 through 2011-12 and estimated contributions for fiscal years 2012-13 and 2013-14. The state has made the full amount of actuarially required contribution each year.

TABLE 29
State Contribution to PERF, including CSU
Fiscal Years 2006-07 to 2013-14
Fiscal Year Ending June 30

(Dollars in Thousands)

Fiscal Year	Amount	General Fund Amount
2006-07	$2,765,107	$1,520,809
2007-08	2,999,455	1,649,700
2008-09	3,063,009	1,684,655
2009-10	2,860,787	1,573,433
2010-11	3,230,489	1,776,769
2011-12	3,174,494	1,745,972
2012-13[a]	3,912,652	2,223,951[b]
2013-14[a]	4,047,986	2,296,295[c]

(a) Estimated contributions.

(b) Pension contributions for CSU employees are included for all years displayed in this table. However, beginning in 2012-13, CSU contributions are identified in these footnotes for budget purposes. Of this $2.2 billion General Fund contribution to CalPERS, approximately $463 million is for CSU employees and $1.761 billion is for other state employees.

(c) Of this $2.3 billion General Fund contribution to CalPERS, approximately $470 million is for CSU employees and $1.826 billion is for other state employees.

Source: State of California, Department of Finance.

Prospective Funding Status; Future Contributions

The level of future required contributions from the state depends on a variety of factors, including future investment portfolio performance, actuarial assumptions, and additional potential changes in retirement benefits. There can be no assurances that the required annual contribution to CalPERS will not continue to significantly increase and that such increases will not materially adversely affect the financial condition of the state. See the caption "PENSION TRUSTS – General" for a discussion of new standards adopted by GASB. It is not known at this time how these changes in accounting and financial reporting will impact CalPERS' contribution policies.

The most recent valuation report for PERF contains a projection of future state contribution rates as a percentage of payroll under different investment return scenarios. The tables that follow provide projected state contribution rates through fiscal year 2016-17 for each of the member categories under various scenarios. (CalPERS has indicated that it intends to perform this analysis with each annual valuation.) The results below reflect that state contributions are expected to increase in coming years and will not level out unless investment returns over the next three years are as high as 18.5 percent per year.

The estimated employer contribution rates displayed below are included in the 2013 Budget Act.

	Fiscal Year 2013-14 Employer Contribution Rates
State Miscellaneous Tier 1	21.203%
State Miscellaneous Tier 2	21.355
State Industrial	16.446
State Safety	17.905
State Peace Officers & Firefighters	31.320
California Highway Patrol	35.935

In accordance with state law, the actuarial valuation for the fiscal year ended June 30, 2012 includes a sensitivity analysis of discount rates 2 percent lower and 2 percent higher than the current discount rate of 7.5 percent. The analysis displays potential required employer contribution rates assuming that the discount rate was adjusted to rates of 5.5 percent or 9.5 percent over the long term. The analysis shows that employer contribution rates are highly sensitive to changes in the discount rate and that employer contribution rates would be significantly reduced if a higher discount rate is used, and employer contribution rates would significantly increase if a lower discount rate is used. The actuarial report for the year ended June 30, 2012 contains information concerning the specific impact on employer contribution rates and unfunded liability resulting from these different discount rate assumptions.

The tables below show the projected state contribution rates for fiscal year 2015-16 through fiscal year 2017-18 for the employee categories under five different investment return scenarios. The contribution rates for fiscal year 2013-14 will not be affected by fiscal year 2012-13 investment returns. The five different investment return scenarios were selected as follows (figures in parentheses are negative numbers):

The first scenario assumes a negative (4.10) percent return for each of the 2013-14, 2014-15 and 2015-16 fiscal years.

The second scenario assumes a 2.60 percent return for each of the 2013-14, 2014-15, and 2015-16 fiscal years.

The third scenario assumes the return for each of the 2013-14, 2014-15, and 2015-16 fiscal years would be CalPERS' assumed 7.50 percent investment return.

The fourth scenario assumes an 11.90 percent return for each of the 2013-14, 2014-15, and 2015-16 fiscal years.

The fifth scenario assumes an 18.50 percent return for each of the 2013-14, 2014-15, and 2015-16 fiscal years.

Estimated: 2015-16

Assumed return	(4.10)%	2.60%	7.50%	11.90%	18.50%
Projected Contribution Rates					
State Miscellaneous Tier 1	23.4%	22.8%	22.4%	22.0%	21.5%
State Miscellaneous Tier 2	23.3	22.7	22.3	22.0	21.4
State Industrial	17.0	16.6	16.3	16.0	15.7
State Safety	17.3	17.0	16.8	16.6	16.2
State Peace Officers & Firefighters	32.1	31.4	30.9	30.5	29.8
California Highway Patrol	37.8	37.1	36.6	36.1	35.4
Schools	13.4	12.9	12.6	12.3	11.9

Source: CalPERS State and Schools Actuarial Valuation, Fiscal Year Ended June 30, 2012.

Estimated: 2016-17

Assumed return	(4.10)%	2.60%	7.50%	11.90%	18.50%
Projected Contribution Rates					
State Miscellaneous Tier 1	26.3%	24.7%	23.5%	22.4%	20.7%
State Miscellaneous Tier 2	26.3	24.8	23.6	22.5	20.8
State Industrial	18.9	17.8	16.9	16.1	14.9
State Safety	18.6	17.6	16.9	16.3	15.3
State Peace Officers & Firefighters	35.7	33.7	32.2	30.8	28.7
California Highway Patrol	41.6	39.6	38.1	36.7	36.7
Schools	15.8	14.5	13.6	12.7	11.3

Source: CalPERS State and Schools Actuarial Valuation, Fiscal Year Ended June 30, 2012.

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		Estimated: 2017-18			
Assumed return	(4.10)%	2.60%	7.50%	11.90%	18.50%
		Projected Contribution Rates			
State Miscellaneous Tier 1	29.9%	27.0%	24.7%	22.4%	18.8%
State Miscellaneous Tier 2	30.2	27.2	24.9	22.7	19.1
State Industrial	21.4	19.3	17.5	15.9	13.2
State Safety	20.3	18.5	17.1	15.8	13.6
State Peace Officers & Firefighters	40.3	36.5	33.5	30.7	26.1
California Highway Patrol	46.5	42.6	39.6	36.7	32.1
Schools	18.9	16.4	14.5	12.7	9.7

Source: CalPERS State and Schools Actuarial Valuation, Fiscal Year Ended June 30, 2012.

Investment Policy; Investment Returns

Pursuant to the state Constitution, the CalPERS Board has sole and exclusive fiduciary responsibility over the assets of the PERF. CalPERS' assets are managed both externally by professional investment management firms and internally by CalPERS investment staff. The CalPERS Board monitors the performance of the managers with the assistance of an external investment consultant.

CalPERS has established a series of procedures and guidelines with respect to investments. The procedures, grouped together as the "Investment Policy," serve to guide CalPERS' asset allocation strategy for PERF. The CalPERS Board reviews the Investment Policy annually, taking into consideration the latest actuarial valuation.

CalPERS follows a strategic asset allocation policy that identifies the percentage of funds to be invested in each asset class. Policy targets are typically implemented over a period of several years on market declines and through dollar cost averaging. Listed below is CalPERS' current asset allocation mix by market value and policy target percentages as of July 31, 2013. The strategic allocation policy may be changed by CalPERS from time to time. Additional information concerning CalPERS investments can be found on the CalPERS website.

Asset Class	Actual Investment (Billions)	Actual Investment	Interim Strategic Target [(1)]
Growth – Public Equity	$142.0	54.0%	50.0%
Growth – Private Equity	31.1	12.0	14.0
Income	40.3	15.0	17.0
Liquidity	10.6	4.0	4.0
Real Estate	22.3	8.0	9.0
Forestland/ Infrastructure	3.4	1.0	2.0
Inflation	9.4	4.0	4.0
Absolute Return Strategy	5.2	2.0	N/A
Multi Asset Class Strategy	0.5	0.0	N/A
Total Fund*	$265.1	100.0%	100.0%

[(1)] Target allocation effective July 2011.

* Figures are rounded for viewing purposes.

Source: http://www.calpers.ca.gov/index.jsp?bc=/investments/assets/assetallocation.xml

The following tables set forth the total return on all assets for PERF for the fiscal years ending June 30, 2002 through June 30, 2012, as well as weighted average returns.

TABLE 30
CalPERS Investment Results Based On Market Value

Fiscal Year	Annualized Rate of Return
2001-02	(6.1)%
2002-03	3.7
2003-04	16.6
2004-05	12.3
2005-06	11.8
2006-07	19.1
2007-08	(5.1)
2008-09	(24.0)
2009-10	13.3
2010-11	21.7
2011-12	0.1

Source: CalPERS Comprehensive Annual Financial Report for Fiscal Years ended June 30, 2011 and June 30, 2012.

In July 2013, CalPERs reported a 12.5% return on investments for the 12- month period ended June 30, 2013.

TABLE 31
PERF Average Weighted Returns as of June 30, 2012

Period	Weighted Average Rate of Return
3 years	11.4%
5 years	(0.1)
10 years	6.1

Source: CalPERS Comprehensive Annual Financial Report for Fiscal Year ended June 30, 2012.

Investigation Affecting CalPERS

The previous use of placement agents by CalPERS' external investment managers has been the subject of investigations by various governmental authorities, including the U.S. Department of Justice, the U.S. Securities and Exchange Commission, and the California Attorney General's Office. Those law enforcement authorities have made extensive requests for documents and other information. According to CalPERS, it has cooperated and continues to cooperate with federal and state law enforcement authorities who are focused on whether civil or criminal laws have been violated by certain entities and individuals associated with CalPERS. In addition to its pending investigative efforts, the California Attorney General brought a civil action against a placement agent firm and other individuals in May 2010. That litigation is still pending.

In March 2011, CalPERS completed a special review of fees paid by its external managers to placement agents and their related activities. In connection with that review, CalPERS secured substantial fee reductions from a number of its external money managers and those managers agreed to no longer use placement agents for new CalPERS investments.

Other Retirement Plans

In addition to PERF, CalPERS also administers LRF, JRF, and JRF II, which are defined benefit plans.

In the JRF actuarial reports for the year ended June 30, 2012 CalPERS reported that, as of June 30, 2012, JRF had an unfunded actuarial liability of approximately $3.1 billion and JRF II had an unfunded actuarial liability of approximately $35.2 million. In the LRF actuarial report for the year ended June 30, 2012, CalPERS reported that LRF, as of June 30, 2012, had actuarial value of assets that exceeded the actuarial liability by approximately $15.6 million. The state's fiscal year 2013-14 retirement contributions from the General Fund are estimated to be $187.4 million for JRF and $56.7 million for JRF II.

Further information concerning JRF, JRF II, and LRF can be found in CalPERS' financial reports and actuarial reports and is set forth in Note 24 (and the Schedule of Funding Progress included in the Required Supplementary Information) to the Audited Basic Financial

Statements of the State of California for the Year Ended June 30, 2012 attached as APPENDIX G to this Official Statement.

CalSTRS

General

CalSTRS was established under the California Education Code in 1913 to provide benefits to California public school and community college teachers and to certain other employees of the state's public school system (kindergarten through community college). CalSTRS is the administrator of multiple-employer, cost-sharing defined benefit plans, a tax-deferred defined contribution plan, a Medicare Premium Payment Program, and a Teachers' Deferred Compensation Fund.

The largest CalSTRS fund, the State Teachers' Retirement Plan (the "STRP"), is a multiple employer, cost-sharing, defined benefit plan comprised of four programs: the Defined Benefit Program (referred to in the state's 2012 Financial Statements and in this Official Statement as the "DB Program"), the Defined Benefit Supplement Program, the Cash Balance Benefit Program, and the Replacement Benefit Program. Within the DB Program there is also a Supplemental Benefits Maintenance Account (the "SBMA") which provides purchasing power protection for retired members.

The state is not an employer (with certain very limited exceptions) in any of CalSTRS programs but does contribute to the DB Program and the SBMA from its General Fund pursuant to statutes in the Education Code. The DB Program is funded through a combination of investment earnings and statutorily set contributions from three sources: the members of CalSTRS, the employers, and the state. Contribution rates for the members and employers to fund the DB Program are not adjusted to reflect or offset actual investment returns or other factors which affect the funded status of the DB Program. The same is true for the contribution rates for the state except that, if the funded status of the DB Program falls below a certain level, the state is required to make specified supplemental contributions to the DB Program.

As of June 30, 2012 (the fiscal year of the DB Program commences July 1 and ends June 30 of the following year), the DB Program's unfunded actuarial obligation was $71.0 billion and the funded ratio was 67.0 percent based on an actuarial value of assets basis and 62.7 percent based on a market value of assets basis. The funding status triggered the requirement for the state to make specified supplemental contributions starting in the fiscal year ended June 30, 2012. See "Funding for the DB Program – State Contributions," "Funding Status," and "Prospective Funding Status; Future Contributions." The funding of the DB Program was identified as a new high-risk issue in the California State Auditor Report 2011 601 dated August 2011 because, as stated in the report, the DB Program assets are projected to be depleted in 30 years assuming existing contribution rates continue, and other significant actuarial assumptions are realized. See "Prospective Funding Status; Future Contributions – Responsibility for the Unfunded Obligation."

The SBMA is a separate account within the DB Program that is funded with a combination of investment earnings and statutorily set contributions from the state. The

Purchasing Power Protection Program payments for retired members are made only to the extent funds are available in the SBMA and are not a vested benefit. See “Funding for the SBMA.”

CalSTRS is administered by a 12-member Teachers’ Retirement Board (the “CalSTRS Board”) that includes the California Director of Finance, State Controller, State Superintendent of Public Instruction, and the State Treasurer, who serve ex officio. The other CalSTRS Board members serve four-year terms and include three CalSTRS member-elected representatives representing current educators, one retired CalSTRS member, three public representatives, and one school board representative, each appointed by the Governor and confirmed by the Senate.

The CalSTRS Board appoints a Chief Executive Officer to administer CalSTRS and a Chief Investment Officer to direct investment of CalSTRS’ assets in accordance with CalSTRS Board policy. The CalSTRS Board also retains independent actuaries, auditors, and investment advisors. The CalSTRS Board has appointed Crowe Horwath LLP beginning with the fiscal year ended June 30, 2011 to serve as the independent auditor for CalSTRS, Pension Consulting Alliance to provide asset allocation and other investment analyses and Milliman, Inc. (the “CalSTRS Consulting Actuary”) to provide actuarial services to CalSTRS and for conducting specialized studies at the request of CalSTRS staff. The CalSTRS System Actuary, a CalSTRS employee, is responsible for reviewing the CalSTRS Consulting Actuary’s work for quality control purposes and also conducts day-to-day analyses as requested by CalSTRS staff.

Certain summary information concerning the DB Program is set forth below.

Members and Employers

As of June 30, 2012, the DB Program included 1,712 employers. The following table reflects the total number of members in the DB Program as of June 30, 2012 and 2011.

TABLE 32
DB Program Membership

Membership	June 30, 2012	June 30, 2011	Percent Change
Active Members	421,499	429,600	(1.9)
Inactive Members	178,655	173,719	2.8
Retirees and Beneficiaries	262,038	253,041	3.6
Total Membership	862,192	856,360	0.7

Source: CalSTRS Comprehensive Annual Financial Report for Fiscal Year ended June 30, 2012.

Retirement Benefits

Member benefits are determined by statute in the Education Code and are generally based on a member’s age, final compensation, and years of credited service. Members are 100 percent vested in retirement benefits after five years of credited service and are eligible for normal retirement at age 60 and for early retirement at age 55 or at age 50 with 30 years of credited service. The normal retirement benefit is 2 percent of final compensation (as defined in the

Education Code) for each year of credited service (up to 2.4 percent of final compensation for members retiring after age 60), and members who retired on or after January 1, 2001 with 30 or more years of service by December 31, 2010 receive monthly bonus payments of up to $400 per month. Pension reform legislation signed in 2012 increased the retirement age for new CalSTRS members hired on or after January 1, 2013. New members who retire at age 62 will be eligible for a benefit equal to 2 percent of final compensation for each year of credited service (up to 2.4 percent of final compensation for members retiring after age 62).

Benefits are increased by 2 percent (a simple, not a compounded, cost-of-living increase) of the initial allowance, on each September 1 following the first anniversary of the effective date of the benefit.

The following table shows the amount of benefits and administrative expenses paid under the DB Program for the last seven fiscal years:

TABLE 33
DB Program
Schedule of Benefits Paid and Administrative Expenses

(Dollars in Millions)

Fiscal Year	Amount of Benefits Paid	Administrative Expenses
2005-06	$ 6,649	$ 96
2006-07	7,168	106
2007-08	7,823	109
2008-09	8,604	113
2009-10	9,358	140
2010-11	10,092	110
2011-12	10,677	138

Source: CalSTRS Comprehensive Annual Financial Reports for Fiscal Years ended June 30, 2006 through 2012.

Funding for the DB Program

The DB Program is funded with a combination of investment income and contributions from members, employers, and the state. Although specific amounts vary from year to year, approximately 55 percent of DB Program assets were derived from investment returns, according to CalSTRS. As described below, the contribution rates of the members, employers, and the state are determined by statute in the Education Code. There can be no assurances that the required amounts annually payable among the members, employers, and state will not significantly increase in the future.

Member Contributions. Members are required to make contributions to the DB Program in an amount equal to 8 percent of creditable compensation of the member. However, for services performed between January 1, 2000 and December 31, 2010, the member contribution to the DB Program was 6 percent because 2 percent was directed to the Defined Benefit Supplement Program (to which the state does not contribute).

Employer Contributions. Employers are required to make contributions to the DB Program in an amount equal to 8 percent of creditable compensation plus 0.25 percent to pay costs of the unused sick leave credit; provided that a portion of the employers' contributions has in the past and may in the future be transferred to the Medicare Premium Program which has the effect of further reducing aggregate annual contributions to the DB Program.

State Contributions. The state's General Fund contribution to the DB Program is 2.017 percent of creditable compensation from two fiscal years prior. For example, for fiscal year 2011-12, the state's contribution was based on creditable compensation from fiscal year 2009-10. The state also contributes an additional 0.524 percent of creditable compensation from two fiscal years prior when there is an unfunded obligation or a normal cost deficit exists for benefits in place as of July 1, 1990. The percentage is adjusted up to 0.25 percent per year to reflect the contributions required to fund the unfunded obligation or the normal cost deficit. However, the supplemental contribution may not exceed 1.505 percent of creditable compensation from two fiscal years prior. Based on the most recent actuarial valuation, as of June 30, 2012, an unfunded obligation exists for the benefits in place as of July 1, 1990, which triggered the supplemental payments for the fiscal year ending June 30, 2012 at a contribution rate of 0.524 percent starting October 1, 2011. An appropriation for this supplemental contribution was included in the 2011 Budget Act. An increased supplemental contribution rate to 0.774 percent was included in the 2012 Budget Act and 1.024 percent is included in the 2013 Budget Act. The following table displays the annual actuarially required contributions, the actual contributions for employers, and the percentage of the actuarially required contribution that has been funded by the employers and the state for the last six fiscal years. Contributions from the state are displayed for the current year and the last seven fiscal years.

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TABLE 34
DB Program
Schedule of Contributions from Employers and the State

(Dollars in Millions)

Fiscal Year	Annual Actuarially Required Contribution[a]	Contributed by Employers[b]	Contributed by State[c]	Total Contributed	Percent of Actuarially Required Contribution Contributed
2006-07	$ 3,980	$ 2,168	$ 360	$ 2,528	64 %
2007-08	4,362	2,363	501	2,864	66
2008-09	4,547	2,331	536	2,867	63
2009-10	4,924	2,130	563	2,693	55
2010-11	5,985	2,228	568	2,796	47
2011-12	6,230	2,166	653	2,819	45
2012-13	Not yet released	Not yet released	718	Not yet released	Not yet released
2013-14	Not yet released	Not yet released	779	Not yet released	Not yet released

(a) For the DB Program Annual Required Contribution for employers and state, an open amortization period of 30 years is used by the CalSTRS Consulting Actuary to determine the unfunded actuarial liability.

(b) For employer contributions, amounts are reduced by the amount of transfers to the Medicare Premium Program.

(c) State of California, Department of Finance; fiscal years ending June 30, 2013 and 2014 are estimated; amount contributed by state in fiscal year 2007 differs from amount reflected in CalSTRS Comprehensive Annual Financial Report for Fiscal Year ended June 30, 2012 due to timing issues. The fiscal years ending June 30, 2012, 2013, and 2014 include the pre-1990 benefit described on the previous page. For 2012, the 0.524 percent contribution equates to $106.5 million, for 2013, the 0.774 percent contribution equates to $188.0 million, and for 2014, the 1.024 percent contribution equates to $251.5 million.

Source: CalSTRS Comprehensive Annual Financial Report for Fiscal Year ended June 30, 2012 (except as noted in footnote (c) to this Table 34).

Actuarial Methods and Assumptions

Although contributions are set by statute, the CalSTRS Consulting Actuary prepares annual actuarial valuation reports of the DB Program. The CalSTRS Consulting Actuary also prepares reports reviewing the DB Program's actual experience every four years. The CalSTRS Board uses experience reports to evaluate how realistic the long-term assumptions have been and may be in the future. The most recent valuation report for the DB Program, dated March 26, 2013 (the "2012 CalSTRS Valuation"), was prepared as of June 30, 2012, and is available on the CalSTRS website. The actuarial assumptions and methods used in the 2012 CalSTRS Valuation were based on the most recent experience report (the "2010 Experience Analysis") prepared by the CalSTRS Consulting Actuary in February 2012.

In preparing the 2012 CalSTRS Valuation, the CalSTRS Consulting Actuary used the Entry Age Actuarial Cost Method to measure the accruing costs of benefits under the DB Program. GASB Statement 68 will require all state and local governments with pension liabilities to use the Entry Age Actuarial Cost Method beginning in fiscal year 2014-15 if they are not already doing so. Under the Entry Age Actuarial Cost Method, the actuarial present value of projected benefits of each individual is allocated on a level basis over the earnings of the individual between entry age and assumed exit age. The portion of the actuarial present value allocated to the valuation year is called the normal cost and represents the cost assigned to a member for a given year, such that it would meet the continuing costs of a particular benefit if contributed each year starting with the date of membership. The CalSTRS Consulting Actuary notes that the Entry Age Actuarial Cost Method is designed to produce a normal cost rate that remains a level percentage of earned salaries and that the normal cost rate is expected to remain fairly stable so long as the benefit provisions are not amended, the assumptions are not changed, membership experience emerges as assumed, and the demographic characteristics of the membership remain reasonably consistent. Some of the key demographic information taken into account includes assumptions about membership, service retirements, disability retirements, deaths, and merit salary increases, and some of the economic items include assumptions about inflation and wage growth.

The portion of the actuarial value of benefits not provided for at a valuation date by the actuarial present value of future normal costs is called the actuarial obligation, and the excess, if any, of the actuarial obligation over the actuarial value of assets is the unfunded actuarial obligation. Assumptions about how long benefits will be paid for active and inactive members and when such members will retire and how long they will live are required in calculating the actuarial obligation, and economic assumptions and valuation methods are required in valuing assets. The following table sets forth certain actuarial methods and assumptions for the four fiscal years ended June 30, 2012.

On June 25, 2012, GASB adopted Statement 67, which is effective beginning in fiscal year 2013-14. See the caption, "PENSION TRUSTS – General." GASB Statement 67 will change the rate used to discount projected benefit payments to their present value (the "Discount Rate") for underfunded pension plans under specific conditions. GASB has stated that GASB Statement 67 will require the Discount Rate for some insufficiently funded plans to be based on a single rate that reflects a blend of the actuarially assumed investment return and the yield or index rate on tax-exempt 20-year AA/Aa-or-higher rated general obligation municipal bonds. There can be no assurance that such change will not apply to the DB Program. The final text of GASB Statement 67 was released on August 2, 2012, and the full effect on the new standards on CalSTRS financial statements is not known at this time. CalSTRS staff has indicated on a preliminary basis that the application of a lower Discount Rate would increase the reported unfunded liability for the DB Program.

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TABLE 35
Certain Actuarial Methods and Assumptions Utilized For DB Program
Fiscal Year Ending June 30

	2009	2010	2011	2012
Methods				
Actuarial Cost Method	Entry age normal	Entry age normal	Entry age normal	Entry age normal
Amortization Method	Level Percent of payroll	Level Percent of payroll	Level Percent of payroll	Level Percent of payroll
Amortization Period	Open	Open	Open	Open
Remaining Amortization Period	30 years	30 years	30 years	30 years
Asset Valuation Method	Expected value with 33% adjustment to market value	Expected value with 33% adjustment to market value	Expected value with 33% adjustment to market value	Expected value with 33% adjustment to market value
Actuarial Assumptions				
Investment Rate of Return	8.00%	7.75%	7.50%	7.50%
Interest on Accounts	6.00	6.00	4.50	4.50
Wage Growth	4.25	4.00	3.75	3.75
Consumer Price Inflation	3.25	3.00	3.00	3.00
Post-retirement Benefit Increases	2.00 (simple)	2.00 (simple)	2.00 (simple)	2.00 (simple)

Source: CalSTRS Comprehensive Annual Financial Reports for Fiscal Years ended June 30, 2010, 2011, and 2012 and 2012 CalSTRS Valuation.

Actuarial Valuation

According to CalSTRS and as reflected in the 2012 CalSTRS Valuation, the biggest source of funding of the DB Program is investment returns, and in calculating the actuarial value of assets, contributions for the past year are added to the actuarial value of assets at the end of the prior year; benefits and expenses are subtracted; an assumed rate of return is added, and as described below, a portion of market value gains and losses are added or subtracted. The assumed investment rate of return on DB Program assets (net of investment and administrative expenses) and the assumed interest to be paid on refunds of member accounts are based in part on an inflation assumption of 3.0 percent.

See the caption "Actuarial Methods and Assumptions" above for a discussion of expected changes in GASB standards that could change the Discount Rate used to calculate the DB Program's unfunded actuarial obligation from a long-term assumed investment rate of return to a blend of the long term assumed investment rate of return and a yield or index rate.

Actual market returns are taken into account but to reduce rate volatility, actual market gains and losses are spread or "smoothed" over a three-year period. That is, one third of the difference between the expected actuarial value of assets and the fair market value of assets is taken into account to determine the actuarial value of assets. According to the 2012 CalSTRS Valuation, due to the asset smoothing method, approximately one-third of the approximately \$3.89 billion investment loss was recognized in June 30, 2012 (the difference between the AVA and MVA in Table 36 below). As discussed under the caption "PENSION TRUSTS – General," GASB Statements 67 and 68, beginning in fiscal year 2013-14 for pension plans and fiscal year 2014-15 for employers, will require state and local governments with pension liabilities to recognize the differences between expected and actual investment returns over a closed 5 year period instead of the 3-year period currently used by CalSTRS. It is not known at this time how this change will impact the DB Program.

Funding Status

The following table sets forth the schedule of funding progress as of the ten most recent actuarial valuation dates based on information provided by CalSTRS from the actuarial valuation reports for such years. Funding progress is measured by a comparison of DB Program assets with DB Program liabilities.

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TABLE 36
DB Program Schedule of Funding Progress
(Fiscal Years Ended June 30)

(Dollars in Millions)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
Market Value of Assets (MVA)[a]	NA	NA	NA	NA	NA	NA	NA	$117,129	$140,040	$134,835
Actuarial Value of Assets (AVA)	$108,667	$114,094	$121,882	$131,237	$146,419	$155,215	$145,142	140,291	143,930	144,232
Actuarial Accrued Liabilities (AAL)-entry age	131,777	138,254	142,193	150,872	167,129	177,734	185,683	196,315	208,405	215,189
Excess of Market Value of Assets over AAL or Surplus (Unfunded) Actuarial Accrued Liabilities (UAAL) MVA Basis[a]	NA	NA	NA	NA	NA	NA	NA	(79,186)	(68,365)	$(80,354)
Excess of Actuarial Value of Assets over AAL or Surplus (Unfunded) Actuarial Accrued Liabilities (UAAL) AVA Basis	(23,110)	(24,160)	(20,311)	(19,635)	(20,710)	(22,519)	(40,541)	(56,024)	(64,475)	(70,957)
Covered Payroll	23,867	22,589	23,257	24,240	25,906	27,118	27,327	26,275	25,576	25,388
Funded Ratio (MVA)[a]	NA	NA	NA	NA	NA	NA	NA	60%	67%	63%
Funded Ratio (AVA)	82%	83%	86%	87%	88%	87%	78%	71%	69%	67%

[a] The CalSTRS Comprehensive Annual Financial Report reports the SBMA assets with DB Program assets and does not provide a separate accounting of only the DB Program assets. Therefore, market values for DB Program assets were not available for the fiscal years ended June 30, 2003 to 2009. The market value of the DB Program assets (without SBMA assets) for the fiscal year ended June 30, 2010, June 30, 2011 and June 30, 2012 was provided by the CalSTRS Consulting Actuary.

Source: CalSTRS.

According to the CalSTRS Comprehensive Annual Financial Report for Fiscal Year ended June 30, 2012, the market value of the entire DB Program investment portfolio (including the SBMA assets) was $150.6 billion, a decrease from $155.5 billion or -3.2 percent over June 30, 2011.

Prospective Funding Status; Future Contributions

In the 2012 CalSTRS Valuation, the CalSTRS Consulting Actuary concluded that the unfunded actuarial obligation will not be amortized over any future period and that the DB Program is projected to have its assets depleted in about 31 years. This was primarily due to lower investment return experience since 2000. The CalSTRS Consulting Actuary also determined in the CalSTRS Valuation for June 30, 2010 that a supplemental contribution of 0.524 percent of creditable compensation was required to be paid by the state beginning in the fiscal year ended June 30, 2012 (commencing with the first quarterly payment due October 1, 2011) because as of June 30, 2010 there was an unfunded actuarial obligation related to the 1990 structure discussed above under "Funding for the DB Program – State Contributions." The 2011 Budget Act included an appropriation related to this statutorily required supplemental contribution. In the CalSTRS Valuation for June 30, 2011, the CalSTRS Consulting Actuary determined that an increase of 0.25 percent in the supplemental contribution, for a total supplemental contribution of 0.774 percent would be required for fiscal year 2012-13. The increased supplemental contribution rate of 0.774 percent was included in the 2012 Budget Act. In the 2012 CalSTRS Valuation, the CalSTRS Consulting Actuary determined that an increase of 0.25 percent in the supplemental contribution, for a total supplemental contribution of 1.024 percent, will be required for fiscal year 2013-14. The increased supplemental contribution rate of 1.024 percent is included in the 2013 Budget Act.

Using the CalSTRS Board's methods and assumptions as of June 30, 2012, the CalSTRS Consulting Actuary calculated that to amortize the unfunded actuarial obligation as of June 30, 2012 over 30 years, a level combined contribution rate of 34.092 percent (an increase to existing combined contribution rates of 14.620 percent and assuming the state's supplemental contribution is adjusted as required by current statutes), beginning on July 1, 2012, would be required. This is an increase of 1.695 percentage points from what the valuation for June 30, 2011 indicated was necessary.

See the caption "Actuarial Methods and Assumptions" above for a discussion of expected changes in GASB standards that could change the Discount Rate used to calculate the DB Program's unfunded actuarial obligation from a long-term assumed investment rate of return to a blend of the long term assumed investment rate of return and a yield or index rate.

The following table sets forth the amortization of the unfunded actuarial obligation of the DB Program assuming that the contribution rates and actuarial assumptions as of June 30, 2012 continue to be utilized. The table shows the amount available to amortize the unfunded actuarial obligation after payment of the normal cost on a year-by-year basis and the unfunded actuarial obligation growing from $79.4 billion in 2012 to $616.8 billion in 2042.

TABLE 37
DB Program
Amortization of Unfunded Actuarial Obligation[(a)(b)]
(*$Millions*)

Year	Fiscal Year	Beginning Unfunded Act. Oblig.	Amortization Payment: Total Contrib.	Amortization Payment: Normal Cost	Amortization Payment: Available Amtzn.	Interest Charge at 7.50%	Recognition of Deferred Asset Losses	Ending Unfunded Act. Oblig.
1	2012-13	$70,957	$5,093	$4,874	$219	$5,314	$3,367	$79,419
2	2013-14	79,419	5,304	5,036	268	5,947	2,413	87,511
3	2014-15	87,511	5,541	5,204	337	6,551	1,729	95,454
4	2015-16	95,454	5,811	5,377	434	7,143	1,239	103,402
5	2016-17	103,402	6,028	5,557	471	7,738	888	111,557
6	2017-18	111,557	6,252	5,742	510	8,348	637	120,032
7	2018-19	120,032	6,485	5,933	552	8,982	456	128,918
8	2019-20	128,918	6,727	6,131	596	9,647	327	138,296
9	2020-21	138,296	6,978	6,334	644	10,349	234	148,235
10	2021-22	148,235	7,238	6,544	694	11,902	168	158,801
11	2022-23	158,801	7,507	6,761	746	11,883	120	170,058
12	2023-24	170,058	7,787	6,984	803	12,725	86	182,066
13	2024-25	182,066	8,077	7,214	863	13,623	62	194,888
14	2025-26	194,888	8,378	7,451	927	14,583	44	208,588
15	2026-27	208,588	8,690	7,696	994	15,608	32	223,234
16	2027-28	223,234	9,014	7,948	1,066	16,703	23	238,894
17	2028-29	238,894	9,350	8,206	1,144	17,875	16	255,641
18	2029-30	255,641	9,698	8,472	1,226	19,128	12	273,555
19	2030-31	273,555	10,059	8,744	1,315	20,468	8	292,716
20	2031-32	292,716	10,433	9,024	1,409	21,902	6	313,215
21	2032-33	313,215	10,821	9,312	1,509	23,436	4	335,146
22	2033-34	335,146	11,224	9,610	1,614	25,077	3	358,612
23	2034-35	358,612	11,642	9,918	1,724	26,833	2	383,723
24	2035-36	383,723	12,075	10,238	1,837	28,712	2	410,600
25	2036-37	410,600	12,525	10,569	1,956	30,723	1	439,368
26	2037-38	439,368	12,991	10,913	2,078	32,876	1	470,167
27	2038-39	470,167	13,475	11,207	2,205	35,181	1	503,144
28	2039-40	503,144	13,978	11,643	2,335	37,650	0	538,459
29	2040-41	538,459	14,499	12,031	2,468	40,294	0	576,285
30	2041-42	576,285	15,040	12,437	2,603	43,126	0	616,808

(a) Based on the actuarial value of assets with projected recognition of deferred known asset losses as of June 30, 2012.

(b) Supplemental State contributions under Education Code §22955(b) are included, as they are required based on the current valuation.

Source: CalSTRS 2012 Valuation

Responsibility for the Unfunded Obligation

As explained above, total statutorily required contributions, when added to investment earnings, have been significantly less than the actuarially required contributions necessary to fully fund the DB Program on an actuarial basis. The CalSTRS Consulting Actuary noted in the 2012 CalSTRS Valuation Report that the DB Program assets would be depleted in about 31 years assuming existing contribution rates continue, and other significant actuarial assumptions are realized. Other than the state's requirement to contribute specified supplemental contributions under certain conditions described above, the state is not required under existing statutes to increase its contributions (only the Legislature can change the statutes requiring the state's contribution), and the Administration does not believe that the state is otherwise required to provide funding for the outstanding liability.

CalSTRS has stated on a number of occasions, including in a letter from the Chief Executive Officer of CalSTRS contained within the CalSTRS Comprehensive Annual Financial Report for the Fiscal Year ended June 30, 2010, that it believes based on its analysis of case law and statutes that the state is responsible for providing an actuarially sound retirement system and paying the difference between the benefits paid and the contributions received in the event that the DB Program assets are depleted. Subsequently, in the Comprehensive Annual Financial Report for the Fiscal Year ended June 30, 2011, the Chief Executive Officer of CalSTRS stated the Legislature and the Governor must craft a specific funding strategy involving increased contributions, which can be "gradual, predictable, and fair to all parties." The Administration does not agree with CalSTRS' position regarding the state's responsibility. The Administration believes that there are a number of ways to address the unfunded liability, including increased employer and employee contributions and other reforms.

In accordance with state law, the Bureau of State Audits periodically identifies what it believes to be "high risk" issues facing the state. The funding of the DB Program was identified as a new high-risk issue in the California State Auditor Report 2011-601 dated August 2011. In its most recent report 2013-601 on state "High Risk" issues, dated September 2013, the Bureau continued to include funding of the DB Program in this category. Excerpts from this portion of the 2013 report are set out below:

> "To limit the risk of not having enough assets to cover retirement benefits, the U.S. Government Accountability Office recommends that retirement systems maintain a funding ratio of at least 80 percent of liabilities…. However, poor investment returns due to the economic recession, as well as the inability to adjust contributions, have caused the funding ratio of the CalSTRS Defined Benefit Program to decrease from 98 percent in 2001 to 67 percent in 2012….
>
> One of the major risks to CalSTRS' funding is that its board does not have the authority to set contribution rates…. [O]nly the Legislature, not the CalSTRS board, has the authority to change the contribution rates. … The member and employer contribution rates have remained largely unchanged by the Legislature since 1972 and 1990, respectively….
>
> At the current contribution rate and actuarially estimated rate or return on investment, the Defined Benefit Program's funding ratio will continue to drop and assets will eventually be depleted….
>
> As time passes, it will be harder to reverse the downward trend, and the required increase in contributions may grow too large for the State to take necessary action. According to a March 2013 actuarial valuation report, even assuming the expected return on CalSTRS' investments is achieved each year, the Defined Benefit Program is at risk of having its

funding status continue to decrease to zero in 31 years if the Legislature does not increase contribution rates. Because the State may bear some responsibility for funding the benefits promised to CalSTRS members, unless the State takes steps to ensure that funding for the CalSTRS program is increased, it may have to make up for the deficit using revenue from taxes. Consequently, this remains a high-risk issue for the State…"

No assurance can be given that the state's contributions to the DB Program will not be increased substantially in the future.

On February 14, 2013, CalSTRS submitted a report to the Legislature on the funding of the DB Program in response to SCR 105. See "Pension Reform" above.

Investment Policy; Investment Returns

Pursuant to the state Constitution, the CalSTRS Board has sole and exclusive fiduciary responsibility over all CalSTRS' assets (including the DB Program assets). CalSTRS' assets (including the DB Program assets) are managed both externally by professional investment management firms and internally by CalSTRS investment staff. The CalSTRS Board monitors the performance of the managers with the assistance of an external investment consultant. See "General" above.

CalSTRS has established a series of procedures and guidelines with respect to investments. The procedures, grouped together as the "Investment Policy and Management Plan," serve to guide CalSTRS asset allocation strategy for all CalSTRS' programs, including the DB Program. The CalSTRS Board reviews the Investment Policy and Management Plan annually, taking into consideration the latest actuarial study. CalSTRS follows strategic allocation guidelines that identify targets for the percentage of funds to be invested in each asset class. These targets are typically implemented over a period of several years. Listed below is CalSTRS current asset allocation mix by market value and guideline target percentages. The strategic allocation guidelines may be changed by the CalSTRS Board from time to time. Additional information concerning CalSTRS investments can be found on the CalSTRS website.

Asset	Market Value (Millions)[1]	Actual %[1]	Current Target %[2]
Global Equity	$ 90,810	54.7%	51.0%
Fixed Income	28,286	17.0	16.0
Real Estate	22,316	13.4	13.0
Private Equity	20,948	12.6	13.0
Cash	2,002	1.2	1.0
Inflation Sensitive	715	0.4	6.0
Overlay	976	0.6	0.0
Total Investment Assets	$166,053	100.0%	100.0%

(1) As of May 31, 2013.

(2) Target Allocation adopted September 10, 2013.

Source: http://www.calstrs.com/current-investment-portfolio

The following table sets forth the total return on all CalSTRS' assets (including the DB Program assets) for the fiscal years ended June 30, 2002 through June 30, 2012, as well as weighted average returns.

TABLE 38
CalSTRS Investment Results Based On Market Value

Fiscal Year	Annualized Rate of Return
2001-02	(5.95)%
2002-03	3.41
2003-04	17.38
2004-05	11.09
2005-06	13.21
2006-07	21.03
2007-08	(3.69)
2008-09	(25.03)
2009-10	12.20
2010-11	23.10
2011-12	1.84

Source CalSTRS Comprehensive Annual Financial Report for Fiscal Year ended June 30, 2012.

In July 2013, CalSTRS reported a 13.8% return on investments for the 12-month period ended June 30, 2013.

TABLE 39
CalSTRS Average Weighted Returns as of June 30, 2012

Period	Weighted Average Rate of Return
3 years	12.04%
5 years	0.31
10 years	6.51

Source: CalSTRS Comprehensive Annual Financial Report for Fiscal Year ended June 30, 2012 for the 3-year, 5-year, and 10-year periods.

Funding for the SBMA

The SBMA is a separate account within the DB Program that is funded with a combination of investment income and contributions from the state. The contribution rate for the state's funding of the SBMA is also determined by statute in the Education Code. The Purchasing Power Protection Program funded from the SBMA provides quarterly payments to retired and disabled members and beneficiaries to restore purchasing power to beneficiaries if the purchasing power of their initial retirement or disability allowances have fallen below a specified percentage. The Purchasing Power Protection Program payments are made only to the extent funds are available in the SBMA and are not a vested benefit.

State Contributions. The state's General Fund contribution to the SBMA is 2.5 percent of creditable compensation of the fiscal year ending in the prior calendar year, less $70 million for the fiscal year ended June 30, 2010, $71 million for the fiscal year ended June 30, 2011 and $72 million thereafter. The following table summarizes funding of the SBMA during the nine fiscal years ending June 30, 2014. The Education Code requires the state to continue contributions to the SBMA and that the unused balances remain in the SBMA even if they exceed the amounts required to be paid to beneficiaries.

TABLE 40
SBMA Funding

Fiscal Year	General Fund Contributions[1]	Other Amounts	Benefit Payments	Interest	Reserve
2005-06	$ 581,367,000	$ 83,520,000	$210,955,854	$173,858,539	$2,802,727,828
2006-07	598,391,000	0	224,130,894	224,218,226	3,399,499,340
2007-08	1,121,501,000[2]	0	223,337,493	271,959,947	4,569,622,638
2008-09	597,474,000[3]	0	341,069,179	365,569,811	5,302,830,510
2009-10	684,935,000	0	266,244,852	424,226,441	6,112,989,062
2010-11	689,633,000	0	245,823,604	489,039,125	6,988,857,762
2011-12	662,744,000	0	234,612,293	Not yet released	8,283,302,000
2012-13[4]	641,763,000	0	Not yet released	Not yet released	Not yet released
2013-14[4]	581,260,411	0	Not yet released	Not yet released	Not yet released

(1) State of California, Department of Finance; fiscal years ending June 30, 2013 and 2014 are estimated.

(2) In the fiscal year ended June 30, 2004, the Legislature reduced the planned $558,867,986 contribution by $500 million. After litigation, the state was ordered to repay the $500 million with interest. The principal amount was repaid in the fiscal year ended June 30, 2008, and the interest is to be paid in four annual installments beginning with the fiscal year ended June 30, 2010. The interest payments are included in the contribution amounts for the respective years.

(3) The Education Code was amended to reduce the amount transferred from the General Fund and to provide that the transfer be made in two equal payments, one on November 1 and the second on April 1.

(4) Estimated.

Source: CalSTRS Comprehensive Annual Financial Report for Fiscal Year ended June 30, 2012 and a 2011 Report to the Governor and the Legislature (except as noted in footnote 1 to this Table 40).

THE BUDGET PROCESS

General

The state's fiscal year begins on July 1 and ends on June 30 of the following year. The state's General Fund budget operates on a legal basis, generally using a modified accrual system of accounting for its General Fund, with revenues credited in the period in which they are measurable and available and expenditures debited in the period in which the corresponding liabilities are incurred.

The annual budget is proposed by the Governor by January 10 of each year for the next fiscal year (the "Governor's Budget"). Under state law and the state constitution, the annual proposed Governor's Budget cannot provide for projected expenditures in excess of projected resources for the ensuing fiscal year. Following the submission of the Governor's Budget, the Legislature takes up the proposal. As required by the Balanced Budget Amendment ("Proposition 58") and as described below, beginning with fiscal year 2004–05, the Legislature may not pass a budget bill in which General Fund expenditures exceed estimated General Fund revenues and beginning fund balances at the time of the passage and as set forth in the budget bill.

Under the state Constitution, money may be drawn from the State Treasury only through an appropriation made by law. The primary source of annual expenditure appropriations is the annual Budget Act as approved by the Legislature and signed by the Governor. Pursuant to Proposition 25, enacted on November 2, 2010, the Budget Act (or other appropriation bills and "trailer bills" which are part of a budget package) must be approved by a majority vote of each House of the Legislature. (This was a reduction from a requirement for a two-thirds vote.) The Governor may reduce or eliminate specific line items in the Budget Act or any other appropriations bill without vetoing the entire bill. Such individual line-item vetoes are subject to override by a two-thirds majority vote of each House of the Legislature.

Appropriations also may be included in legislation other than the Budget Act. Continuing appropriations, available without regard to fiscal year, may also be provided by statute or the state Constitution.

Funds necessary to meet an appropriation are not required to be in the State Treasury at the time an appropriation is enacted; revenues may be appropriated in anticipation of their receipt.

Constraints on the Budget Process

Over the years, a number of laws and constitutional amendments have been enacted, often through voter initiatives, which have made it more difficult for the state to raise taxes, restricted the use of the state's General Fund or special fund revenues, or otherwise limited the Legislature and the Governor's discretion in enacting budgets. Historic examples of provisions that make it more difficult to raise taxes include Proposition 13, passed in 1978, which, among other things, required that any change in state taxes enacted for the purpose of increasing revenues collected pursuant thereto, whether by increased rates or changes in computation, be approved by a two-thirds vote in each house of the Legislature, and Proposition 4, approved in

1979, which limits government spending by establishing an annual limit on the appropriation of tax proceeds. Examples of provisions restricting the use of General Fund revenues are Proposition 98, passed in 1988, which mandates that a minimum amount of General Fund revenues be spent on local education, and Proposition 10, passed in 1998, which raised taxes on tobacco products and mandated how the additional revenues would be expended. See "STATE FINANCES – Proposition 98 and K-14 Funding" and " - Sources of Tax Revenue – Taxes on Tobacco Products."

Constitutional amendments approved by the voters have also affected the budget process. These include Proposition 49, approved in 2002, which requires the expansion of funding for before and after school programs. Proposition 58, approved in 2004, which requires the adoption of a balanced budget and restricts future borrowing to cover budget deficits; Proposition 63, approved in 2004, which imposes a surcharge on taxable income of more than $1 million and earmarks this funding for expanded mental health services; Proposition 1A, approved in 2004, which limits the Legislature's power over local revenue sources, and Proposition 1A, approved in 2006, which limits the Legislature's ability to use sales taxes on motor vehicle fuels for any purpose other than transportation. Propositions 22 and 26, approved on November 2, 2010, further limit the state's fiscal flexibility. Proposition 25, also passed by the voters in November 2010, changed the legislative vote requirement to pass a budget and budget related legislation from two-thirds to a simple majority. It retained the two-thirds vote requirement for taxes. Proposition 30, approved on November 6, 2012, among other things, placed into the state Constitution the current statutory provisions transferring 1.0625 percent of the state sales tax to local governments to fund realignment; and Proposition 39, also approved on November 6, 2012, among other things, dedicates for five years up to $550 million annually to clean energy projects out of an expected $1 billion annual increase in corporate tax revenue due to reversal of a provision adopted in 2009 that gave corporations an option on how to calculate their state income tax liability.

These approved constitutional amendments are described below.

Balanced Budget Amendment (Proposition 58)

Proposition 58, approved by the voters in 2004, requires the state to enact a balanced budget, and establish a special reserve, and restricts certain future borrowing to cover fiscal year end deficits. As a result of the provisions requiring the enactment of a balanced budget and restricting borrowing, the state would in some cases have to take more immediate actions to correct budgetary shortfalls. Beginning with the budget for fiscal year 2004-05, Proposition 58 requires the Legislature to pass a balanced budget and provides for mid-year adjustments in the event that the budget falls out of balance and the Governor calls a special legislative session to address the shortfall. The balanced budget determination is made by subtracting estimated expenditures from all resources expected to be available, including prior-year balances.

If the Governor determines that the state is facing substantial revenue shortfalls or spending increases, the Governor is authorized to declare a fiscal emergency. He or she would then be required to propose legislation to address the emergency, and call the Legislature into special session for that purpose. If the Legislature fails to pass and send to the Governor legislation to address the fiscal emergency within 45 days, the Legislature would be prohibited from: (i) acting on any other bills or (ii) adjourning in joint recess until such legislation is passed.

Proposition 58 also required the establishment of the Budget Stabilization Account, which is funded by annual transfers of specified amounts from the General Fund, unless suspended or reduced by the Governor or until a specified maximum amount has been deposited.

Proposition 58 also prohibits the use of general obligation bonds, revenue bonds, and certain other forms of borrowing to cover fiscal year end budget deficits. The restriction does not apply to certain other types of borrowing, such as: (i) short-term borrowing to cover cash shortfalls in the General Fund (including revenue anticipation notes or revenue anticipation warrants currently used by the state), or (ii) inter-fund borrowings.

Local Government Finance (Proposition 1A of 2004)

As described under "STATE FINANCES – Local Governments," Senate Constitutional Amendment No. 4 (also known as "Proposition 1A of 2004"), approved by the voters in the November 2004 election, amended the state Constitution to, among other things, reduce the Legislature's authority over local government revenue sources by placing restrictions on the state's access to local governments' property, sales, and vehicle license fee revenues as of November 3, 2004. Beginning with fiscal year 2008-09, the state was able to borrow up to 8 percent of local property tax revenues, but only if the Governor proclaimed such action was necessary due to a severe state fiscal hardship and two–thirds of both houses of the Legislature approve the borrowing. The amount borrowed is required to be paid back within three years. In addition, the state cannot reduce the local sales tax rate or restrict the authority of local governments to impose or change the distribution of the statewide local sales tax.

The provisions of Proposition 1A of 2004 allowing the state to borrow money from local governments from time to time have been repealed by Proposition 22 of 2010, which permanently prohibits any future such borrowing. However, prior to such repeal, the Amended 2009 Budget Act authorized the state to exercise its Proposition 1A of 2004 borrowing authority. This borrowing generated $1.998 billion that was used to offset state General Fund costs for a variety of court, health, corrections, and K-12 programs. Pursuant to Proposition 1A of 2004, the state was required to repay the local government borrowing no later than June 15, 2013. The 2012 Budget Act included $2.1 billion to fully retire the outstanding obligations, with interest, to be paid from the General Fund, and repayment was made in June of 2013.

Proposition 1A of 2004 also prohibits the state from mandating activities on cities, counties or special districts without providing for the funding needed to comply with the mandates. Beginning in fiscal year 2005-06, if the state does not provide funding for the mandated activity, the requirement on cities, counties or special districts to abide by the mandate is suspended. In addition, Proposition 1A of 2004 expands the definition of what constitutes a mandate on local governments to encompass state action that transfers to cities, counties and special districts financial responsibility for a required program for which the state previously had partial or complete financial responsibility. The state mandate provisions of Proposition 1A of 2004 do not apply to schools or community colleges or to mandates relating to employee rights. The 2013 Budget Act suspends mandates subject to Proposition 1A of 2004 until the 2014-15 fiscal year. The total estimated back cost owed on the suspended mandates is approximately $888 million. That amount would be payable if the Legislature chose to individually fund all suspended mandates.

Proposition 1A of 2004 further requires the state to reimburse cities, counties, and special districts for mandated costs incurred prior to fiscal year 2004-05 over a term of years. Chapter 72, Statutes of 2005 (AB 138) requires the payment of mandated costs incurred prior to fiscal year 2004-05 to begin in fiscal year 2006-07 and to be paid over a term of 15 years. The 2012-13 Budget, which includes Chapter 32, Statutes of 2012 (SB 1006), defers payment of these claims through the 2014-15 fiscal year and refinances the balance owed over the remaining payment period. The 2013 Budget Act maintains the deferral of the payment. The remaining estimated cost of claims for mandated costs incurred prior to fiscal year 2004-05 is approximately $900 million.

After School Education Funding (Proposition 49)

An initiative statute, Proposition 49, called the "After School Education and Safety Program Act of 2002," was approved by the voters on November 5, 2002, and required the state to expand funding for before and after school programs in the state's public elementary, middle and junior high schools. The increase was first triggered in fiscal year 2006-07, which increased funding for these programs to $550 million. These funds are part of the Proposition 98 minimum funding guarantee for K-14 education and, in accordance with the initiative, expenditures can only be reduced in certain low revenue years. See "STATE FINANCES – Proposition 98 and K-14 Funding."

Mental Health Services (Proposition 63)

On November 2, 2004, the voters approved Proposition 63, the Mental Health Services Act, which imposes a 1 percent tax surcharge on taxpayers with annual taxable income of more than $1 million for purposes of funding and expanding mental health services. Proposition 63 prohibits the Legislature or the Governor from redirecting these funds or from reducing General Fund support for mental health services below the levels provided in fiscal year 2003-04. Chapter 5, Statutes of 2011 (AB 100) allowed the one-time redirection of $861 million of Proposition 63 funds from the reserve in fiscal year 2011-12 for the Early and Periodic Screening, Diagnosis and Treatment ("EPSDT") program, mental health managed care, and mental health services for special education students. Commencing in fiscal year 2012-13, the EPSDT program and mental health managed care are funded with "2011 Realignment" funds as the programs are realigned to counties, mental health services for special education students are funded with Proposition 98 General Fund, and all available Proposition 63 funds are distributed for programs eligible under the Mental Health Services Act.

Transportation Financing (Proposition 1A of 2006)

On November 7, 2006, voters approved Proposition 1A of 2006, which had been placed on the ballot by the Legislature as Senate Constitutional Amendment No. 7, to protect Proposition 42 transportation funds from any further suspensions. Provisions of the state Constitution enacted as Proposition 42 in 2002, permitted the suspension of the annual transfer of motor vehicle fuel sales tax revenues from the General Fund to the Transportation Investment Fund if the Governor declared that the transfer would result in a "significant negative fiscal impact" on the General Fund and the Legislature agreed with a two-thirds vote of each house. The new measure modified the constitutional provisions of Proposition 42 in a manner similar to Proposition 1A of 2004, so that if such a suspension were to have occurred, the amount owed by the General Fund would have had to be repaid to the Transportation Investment Fund within three years, and only two such suspensions could have been made within any 10-year period. In fiscal year 2003-04, $868 million of the scheduled Proposition 42 transfer was suspended, and in fiscal year 2004-05 the full transfer of $1.258 billion was suspended. Budget Acts for fiscal years 2006-07 through 2010-11 all fully funded the Proposition 42 transfer and partially repaid the earlier suspensions. Chapter 11, Statutes of 2010, in the Eighth Extraordinary Session included an elimination of the state sales tax rate on gasoline and an increase in gasoline excise taxes, effectively removing the revenue subject to these restrictions from the state tax system. However, consistent with the requirements of Proposition 1A of 2006, the 2013 Budget Act includes $83 million to repay a portion of past suspensions.

<u>Proposition 22 – Local Government Funds</u>

On November 2, 2010, voters approved this measure, called the "Local Taxpayer, Public Safety and Transportation Protection Act of 2010," which supersedes some parts of Proposition 1A of 2004, prohibits any future action by the Legislature to take, reallocate or borrow money raised by local governments and redevelopment agencies for local purposes, and prohibits changes in the allocation of property taxes among local governments designed to aid state finances or pay for state mandates. The Proposition 1A borrowing done in 2009 was grandfathered. In addition, by superseding Proposition 1A of 2006, the state is prohibited from borrowing sales taxes or excise taxes on motor vehicle fuels for budgetary purposes (but legislation enacted in 2012 clarifies these funds may be used for short-term cash management borrowing), or changing the allocations of those taxes among local governments except pursuant to specified procedures involving public notices and hearings. Any law enacted after October 29, 2009 inconsistent with Proposition 22 is repealed. Proposition 22 jeopardized the use of funds from the gasoline excise tax that had been used in the 2010 Budget Act to offset General Fund debt service cost on highway bonds and for lending to the General Fund. Passage of this measure jeopardized an estimated $850 million in General Fund relief in fiscal year 2010-11, an amount which would grow to almost $1 billion by fiscal year 2013-14. The 2011 Budget Act replaced the use of gasoline excise tax for these purposes with truck weight fees and other transportation revenues that may be used for these purposes under Article XIX of the state Constitution. This preserved the 2011 Budget Act allocations for state and local programs while achieving similar levels of General Fund relief to that obtained in the 2010 Budget Act. These debt service offsets were continued in the 2012 and 2013 Budget Acts.

The inability of the state to borrow or redirect property tax funds reduces the state's flexibility in reaching budget solutions. The state had used these actions for several billion dollars of solutions prior to the enactment of Proposition 22.

Proposition 26 – Increases in Taxes or Fees

On November 2, 2010, voters approved this ballot measure which revises provisions in Articles XIII A and XIII C of the state Constitution dealing with tax increases. The measure specifies that a two-thirds vote of both houses of the Legislature is required for any increase in any tax on any taxpayer, eliminating the prior practice where a tax increase coupled with a tax reduction is treated as being able to be adopted by majority vote. Furthermore, any increase in a fee beyond the amount needed to provide the specific service or benefit is deemed a tax requiring two-thirds vote. Finally, any tax or fee adopted after January 1, 2010 with a majority vote which would have required a two-thirds vote if Proposition 26 were in place would be repealed after one year from the election date unless readopted by the necessary two thirds vote.

Proposition 25 – On-Time Budget Act of 2010

On November 2, 2010, voters approved this measure that is intended to end budget delays by changing the legislative vote necessary to pass the budget bill from two-thirds to a majority vote and by requiring legislators to forfeit their pay if the Legislature fails to pass the budget bill on time. This measure does not change Proposition 13's property tax limitations in any way. This measure does not change the two-thirds vote requirement for the Legislature to raise taxes. The lower vote requirement also applies to trailer bills that appropriate funds and are identified by the Legislature "as related to the budget in the budget bill." This measure also provides that the budget bill and other bills providing for appropriations related to the budget bill are to take effect immediately upon being signed by the Governor or upon a date specified in the legislation.

Proposition 30 – The Schools and Local Public Safety Protection Act of 2012

On November 6, 2012, voters approved Proposition 30 which provided temporary increases in personal income tax rates for high-income taxpayers and a temporary increase in the state sales tax rate, and specified that the additional revenues will support K-14 public schools and community colleges as part of the Proposition 98 guarantee. Proposition 30 also placed into the state Constitution the current statutory provisions transferring 1.0625 percent of the state sales tax to local governments to fund the "realignment" program for many services including housing criminal offenders. See "STATE FINANCES – Sources of Tax Revenue."

Proposition 39 – The California Clean Energy Jobs Act

On November 6, 2012, voters approved Proposition 39 thereby amending state statutes governing corporation taxes by reversing a provision adopted in 2009 giving corporations an option on how to calculate the portion of worldwide income attributable to California. By requiring corporations to base their state tax liability on sales in California, it is estimated that state revenues would be increased by about $1 billion per year. The measure also, for five years, dedicates up to an estimated $550 million per year from this increased income to funding of projects that create energy efficiency and clean energy jobs in California.

FINANCIAL STATEMENTS

The Audited Basic Financial Statements of the State of California for the Year Ended June 30, 2012 (the "Financial Statements") are included as APPENDIX G to this Official Statement and incorporated into this APPENDIX A. The Financial Statements consist of an Independent Auditor's Report, a Management Discussion and Analysis, Basic Financial Statements of the state for the Year Ended June 30, 2012 ("Basic Financial Statements"), and Required Supplementary Information. Only the Basic Financial Statements have been audited, as described in the Independent Auditor's Report. A description of the accounting and financial reporting standards set by the Governmental Accounting Standards Board and used in the Basic Financial Statements is contained in Note 1 of the Basic Financial Statements.

The State Controller issues a monthly report on General Fund cash receipts and disbursements. These reports are available on the State Controller's website, and are normally released by the 10th day of every calendar month for the period ended on the last day of the prior month. The State Controller's unaudited reports of General Fund cash receipts and disbursements for the period July 1, 2012 through June 30, 2013 and July 1, 2013 through September 30, 2013 are included as EXHIBIT 1 and EXHIBIT 2, respectively, to this APPENDIX A.

Periodic reports on revenues and/or expenditures during the fiscal year are issued by the Administration, the State Controller's Office and the LAO. The Department of Finance issues a monthly bulletin, available by accessing the internet website of the Department of Finance (www.dof.ca.gov), which reports the most recent revenue receipts as reported by state departments, comparing those receipts to budget projections. The Administration also formally updates its budget projections three times during each fiscal year, in January, May, and at the time of budget enactment. These bulletins and reports are available on the internet at websites maintained by the agencies and by contacting the agencies at their offices in Sacramento, California. Such bulletins and reports are not part of or incorporated into this APPENDIX A. Investors are cautioned that interim financial information is not necessarily indicative of results for a fiscal year. Information which may appear in this APPENDIX A from the Department of Finance concerning monthly receipts of "agency cash" may differ from the State Controller's reports of cash receipts for the same periods because of timing differences in the recording of in-transit items.

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INVESTMENT OF STATE FUNDS

Moneys on deposit in the State Centralized Treasury System are invested by the State Treasurer in the PMIA. As of September 30, 2013, the PMIA held approximately $37.3 billion of state moneys, and $19.3 billion invested for about 2,613 local governmental entities through the Local Agency Investment Fund ("LAIF"). The assets of the PMIA as of September 30, 2013 are shown in the following table.

TABLE 41
Analysis of Pooled Money Investment Account Portfolio[(a)]

(Dollars in Thousands)

Type of Security	Amount	Percent of Total
U.S. Treasuries	$ 33,637,784	59.41%
Federal Agency Debentures	2,193,059	3.87
Certificates of Deposit	7,875,000	13.91
Bank Notes	0	0.00
Federal Agency Discount Notes	2,548,035	4.50
Time Deposits	4,376,640	7.73
GNMAs	0	0.00
Commercial Paper	1,974,637	3.50
FHLMC/REMICs	159,740	0.28
AB 55 Loans	377,639	0.67
General Fund Loans	2,975,000	5.25
Other	499,963	0.88
Total	$ 56,617,497	100.00%

(a) Totals may not add due to rounding.

Source: State of California, Office of the State Treasurer.

The State's Treasury operations are managed in compliance with the California Government Code and according to a statement of investment policy which sets forth permitted investment vehicles, liquidity parameters and maximum maturity of investments. The PMIA operates with the oversight of the PMIB. The LAIF portion of the PMIA operates with the oversight of the Local Agency Investment Advisory Board (consisting of the State Treasurer and four other appointed members).

The PMIA is not invested, nor has it ever been invested, in structured investment vehicles or collateralized debt obligations. The PMIA portfolio performance, and the PMIA's holdings are displayed quarterly on the State Treasurer's website and may be accessed under PMIB Quarterly Reports. The PMIA is not currently invested in auction rate securities.

The State Treasurer does not invest in leveraged products or inverse floating rate securities. The investment policy permits the use of reverse repurchase agreements subject to limits of no more than 10 percent of the PMIA. All reverse repurchase agreements are cash matched either to the maturity of the reinvestment or an adequately positive cash management date which is approximate to the maturity of the reinvestment.

The average life of the investment portfolio of the PMIA as of September 30, 2013 was 239 days.

OVERVIEW OF STATE GOVERNMENT

Organization of State Government

The state Constitution provides for three separate branches of government: the legislative, the judicial and the executive. The state Constitution guarantees the electorate the right to make basic decisions, including amending the state Constitution and local government charters. In addition, the state voters may directly influence state government through the initiative, referendum and recall processes. The state Constitution provides for mechanisms through which it may be amended or revised.

California's Legislature consists of a 40-member Senate and an eighty-member Assembly. Assembly members are elected for two-year terms, and Senators are elected for four-year terms. Before passage of Proposition 28 on June 5, 2012, Assembly members were limited to three terms in office and Senators to two terms. Proposition 28 reduced the total amount of time a person may serve in the Legislature from 14 to 12 years, but allows a person to serve a total of 12 years in either the Assembly, the Senate, or a combination of both. The new term limits law applies only to members of the Legislature elected after the measure was passed.

The Legislature meets almost year round for a two-year session. The Legislature employs the Legislative Analyst, who provides reports on state finances, among other subjects. The Office of the California State Auditor, an independent office since 1993, annually issues an auditor's report based on an examination of the General Purpose Financial Statements of the State Controller, in accordance with generally accepted accounting principles. See "FINANCIAL STATEMENTS."

The Governor is the chief executive officer of the state. The Governor presents the annual budget and traditionally presents an annual package of bills constituting a legislative program. In addition to the Governor, state law provides for seven other statewide elected officials in the executive branch. The Governor and the other statewide officials may be elected for up to two four-year terms. The current elected statewide officials, their party affiliation and the dates on which they were first elected are as follows:

Office	Name	Party Affiliation	First Elected
Governor	Edmund G. Brown Jr.	Democrat	2010*
Lieutenant Governor	Gavin Newsom	Democrat	2010
Controller	John Chiang	Democrat	2006
Treasurer	Bill Lockyer	Democrat	2006
Attorney General	Kamala D. Harris	Democrat	2010
Secretary of State	Debra Bowen	Democrat	2006
Superintendent of Public Instruction	Tom Torlakson	Democrat	2010
Insurance Commissioner	Dave Jones	Democrat	2010

* Previously served as Governor 1975-83, prior to term limit law.

Effective as of July 1, 2013, by way of the Governor's Reorganization Plan, in addition to other entities such as the Department of Finance, the executive branch is principally administered through the following agencies and Secretaries:

1. Business, Consumer Services and Housing,
2. Government Operations,
3. Corrections and Rehabilitation,
4. Labor and Workforce Development,
5. Health and Human Services,
6. Environmental Protection,
7. Natural Resources,
8. Food and Agriculture,
9. Transportation, and
10. Veterans Affairs.

In addition, some state programs are administered by boards and commissions, such as The Regents of the University of California, Public Utilities Commission, Franchise Tax Board and California Transportation Commission, which have authority over certain functions of state government with the power to establish policy and promulgate regulations. The appointment of members of boards and commissions is usually shared by the Legislature and the Governor, and often includes ex officio members.

Higher Education

California has a comprehensive system of public higher education comprised of three segments: the University of California, the California State University System and California Community Colleges. The University of California provides undergraduate, graduate and professional degrees to students, awarding 63,183 degrees in the 2011-12 school year. The ten University of California campuses and the Hastings College of Law enrolled 238,353 full time students in the 2011-12 school year. The California State University provides undergraduate and graduate degrees, awarding 96,152 degrees in the 2011-12 school year. The California State University enrolled 355,609 full-time students at the 23 campuses in the 2011-12 school year. The third sector consists of 112 campuses operated by 72 community college districts, which provide associate degrees and certificates to students. Additionally, students may attend California community colleges ("CCCs") to meet basic skills and other general education requirements prior to transferring to a four-year undergraduate institution. The CCCs awarded 154,806 associate degrees and certificates in the 2011-12 school year. For the 2011-12 school year, approximately 1.2 million full-time equivalent students were enrolled at CCCs.

Employee Relations

The 2013 Budget Act estimates the state work force for fiscal year 2013-14 at approximately 349,000 positions, of which approximately 132,000 positions represent state employees of the legislative and judicial branches of government and institutions of higher education. Of the remaining positions, over 80 percent are subject to collective bargaining and less than 20 percent are excluded from collective bargaining. State law provides that state employees, defined as any civil service employee of the state and teachers under the jurisdiction of the Department of Education or the Superintendent of Public Instruction, and excluding certain other categories, have a right to form, join, and participate in the activities of employee organizations for the purpose of representation on all matters of employer-employee relations. Once a bargaining unit ("BU") selects an employee organization, only that organization can represent those employees.

The scope of representation is limited to wages, hours, and other terms and conditions of employment. Representatives of the Governor are required to meet and confer in good faith and endeavor to reach agreement with the employee organization and, if an agreement is reached, to prepare a memorandum of understanding ("MOU") and present it to the Legislature for ratification. The Governor and the recognized employee organization are authorized to agree mutually on the appointment of a mediator for the purpose of settling any disputes between the parties, or either party could request the Public Employment Relations Board to appoint a mediator.

There are 21 collective BUs that represent state employees. The Service Employees International Union is the exclusive representative for 9 of the 21 BUs, or approximately 50 percent of those represented employees subject to collective bargaining. The International Union of Operating Engineers is the exclusive representative for 2 of the 21 collective BUs. The remaining BUs have their own exclusive representative. Eighteen of the state's 21 BUs have an existing MOU. The following table lists the state's 21 BUs, their exclusive representatives, membership levels, and MOU expiration dates.

TABLE 42
Collective Bargaining Units

Unit	Description	Full-Time Equivalents[a]	MOU Expiration
1, 3, 4, 11, 14, 15, 17, 20, and 21	Service Employees International Union, Local 1000: Various	91,078	7/1/2016
2	California Attorneys, Administrative Law Judges & Hearing Officers in State Employment: Attorneys and Administrative Law Judges	3,755	7/1/2013[b]
5	California Association of Highway Patrolmen: Highway Patrol	6,635	7/3/2018
6	California Correctional Peace Officers Association: Corrections	28,357	7/2/2015
7	California Statewide Law Enforcement Association: Protective Services and Public Safety	6,780	7/1/2016
8	California Department of Forestry Firefighters: Firefighters	4,754	7/1/2017
9	Professional Engineers in California Government: Professional Engineers	10,824	7/1/2015
10	California Association of Professional Scientists: Professional Scientists	2,768	7/1/2013[b]
12	International Union of Operating Engineers: Craft and Maintenance	10,819	7/1/2015
13	International Union of Operating Engineers: Stationary Engineers	936	7/1/2013[b]
16	Union of American Physicians and Dentists: Physicians, Dentists, and Podiatrists	1,517	7/1/2016
18	California Association of Psychiatric Technicians: Psychiatric Technicians	5,413	7/1/2016
19	American Federation of State, County and Municipal Employees: Health and Social Services/Professional	4,859	7/1/2016
Total		178,494	

[a] Full-Time equivalents are from the Table 183, State Controller's Office, April 2013.

[b] While the state and the affected BUs continue to negotiate expired MOUs, such MOUs continue in effect until replaced or extended pursuant to Government Code 3517.8.

Source: Department of Human Resources

The following are major changes in employee compensation and terms of employment in 2013-14, 2014-15, and 2015-16 as a result of the 2013 Budget Act, current MOUs, enacted pension reform legislation, and administratively established compensation adjustments for excluded employees:

- Employee contributions of 0.5 percent of base salary towards prefunding other postemployment retirement benefits for BUs 12 and 16 effective July 1, 2013.

- State contribution of an additional 2 percent of base salary towards prefunding other postemployment retirement benefits for BU 5 effective July 1, 2013.

- BUs 5, 8, 12, 16, 18, 19, and excluded employees associated with BUs 5 and 8 received restructured pay scales that added a top step adjustment of 2 to 5 percent on January 1, 2012. The remaining BUs (1, 2, 3, 4, 6, 7, 9, 10, 11, 13, 14, 15, 17, 20 and 21) and excluded employees received restructured pay scales that added a top step of 2 to 5 percent on July 1, 2013.

- BU 5 employees and the related excluded employees will receive a 4 percent General Salary Increase (GSI), effective July 1, 2013.

- State contribution, on behalf of BU 5 employees and the related excluded employees, of an additional 1.9 percent of base salary towards prefunding other post-employment retirement benefits, effective July 1, 2013. This contribution shall be in addition to the contributions already being made.

- State contribution of an additional 1.9 percent of base salary towards prefunding other post-employment retirement benefits for BU 5 employees and the related excluded employees, effective July 1, 2015.

- BUs 6, 7, and 9 will receive a GSI ranging from 3 to 4 percent between January 1 and July 1, 2015.

The following salary increases are contingent on projected state revenues at the 2014-15 May Revision to the Governor's Budget being sufficient to fully fund existing statutory and constitutional obligations, existing fiscal policy, and the cost of providing the salary increases. This determination is referred to as the "trigger," and shall be at the sole discretion of the Director of Finance.

- BU 12 will receive a one-time bonus, effective July 1, 2014, and a 3 percent salary increase, effective July 1, 2015, dependent on the trigger. If the trigger is not met, employees will receive a 3.25 percent salary increase, effective July 1, 2015.

- BUs 1, 3, 4, 11, 14, 15, 16, 17, 18, 19, 20, and 21 will receive a 1.5 to 2 percent salary increase, effective July 1, 2014, dependent on the trigger. If the trigger is not met, employees will receive a salary increase of 3 to 4.5 percent, effective July 1, 2015.

With the passage of the Public Employees' Pension Reform Act of 2013, state employees in designated bargaining units and associated excluded employees started making additional payroll contributions to their pension plans on July 1, 2013. Generally, the additional employee contribution ranges from 1 to 3 percent, some of which are phased in over a two-year period. The 2013 Budget Act includes $67.1 million ($41.9 million General Fund) directed toward the state's unfunded pension liability to reflect the savings resulting from the increased employee contributions.

ECONOMY AND POPULATION

Introduction

California's economy, the largest among the 50 states and one of the largest in the world, has major components in high technology, trade, entertainment, agriculture, manufacturing, tourism, construction and services. California followed the nation's path through the recession and into the recovery. California labor markets deteriorated dramatically during the latter half of 2008 and the first nine months of 2009, suffering their worst losses on record. From July 2007 through September 2009, the state lost nearly 1.4 million nonfarm jobs. These losses switched to very modest gains during 2010 and 2011, which accelerated in 2012. California has gained 674,400 jobs from September 2009 through December 2012. See "CURRENT STATE BUDGET – Development of Revenue Estimates."

Population, Labor Force and Demographic Trends

In 2012 California's population reached 37.8 million residents. Since the recession began and housing construction started to decline, all of California's population growth has been attributable to natural increase (more births than deaths). California's population gain over the ten years (2002-2012) is 2.9 million persons. To put this in perspective, California added more residents between 2002 and 2012 than the total 2010 population of each of the eighteen least populated states. Though by California standards the last few years have seen relatively slow growth, the Administration does not expect this trend to continue beyond the short-term. As California's economy is improving and employment is picking up, California will begin seeing stronger population gains.

California has long been a destination state for both domestic and international migrants. Growth due to migration, combined with natural increase, has historically resulted in substantial population gains. California added more residents than any other state in every decade between 1920 and 2000. The phenomenal growth experienced by California between 1980 and 1990 was the largest of any state in the history of the United States, both in additional residents (6.1 million) and in terms of the state's share of U.S. growth in a single decade; California accounted for 27.5 percent of the U.S. population growth in that decade. California also had the second largest numerical growth in a decade for any state in the country, when the state added 5.1 million people during the 1950's. Between 2000 and 2010, California's growth slowed somewhat, but still added the second largest number of people (3.4 million), behind Texas, which added 4.3 million.

California's population is projected to be 38,133,000 in July 2013 and 38,462,000 by July 2014, which allow for growth rates of 0.8 and 0.9 respectively. The forecast further assumes that through the next five years, the state will grow at a slightly higher rate than over the last few years, averaging 345,000 residents annually through 2017. Natural increase will account for most of the growth during this time. Net migration is projected to gradually increase as economic conditions continue to improve. By July 2017, California will have added 1.7 million people and have a population of over 39.5 million, a five-year growth rate of 4.5 percent.

The dependency ratio is an economic measure which approximates dependency by dividing the dependent-age population (under 18 plus 65 and over) by the working-age (18 to 64) population. The ratio represents the dependent age population per 100 working-age population. The dependency ratio for California's 2010 population stood at 57.1, compared to 59.2 for the remainder of the United States. The dependency ratio ignores labor force participation rates, as well as employment and unemployment levels.

The demographic phenomenon of the baby-boom began in 1946 and ended in 1964, so the first baby-boomers began to turn 65 in 2011. California will experience large growth in the 65 and over age group for the next two decades, as will the United States and much of the world. However, California enjoys a more diverse population that remains younger than most other states in the union. According to the 2010 Census, California's 65 and over age cohort comprised 11.4 percent of the state's population; in the remainder of the United States, the 65 and over groups accounted for 13.3 percent of the population. Only five states have a lower percentage of the population who are 65 years of age or older.

As the state's growth patterns change, the age and race distribution of California's population continue to transform. It is projected that in July 2013, the non-Hispanic White and the Hispanic population each represented 39 percent of California's population. By early 2014, for the first time since California became a state, the Hispanic population will become the largest group in California. This shift is due primarily to variations in demographic patterns, including fertility, age structure, and migration. In July 2013, of the non-Hispanic White population, 43 percent will be at least 50 years of age, while 19 percent of Hispanics will be 50 or older.

Population growth rates vary significantly by age group. The state's projected total five-year growth rate of 4.5 percent is lower than the anticipated 6.2 percent growth in the preschool-age group. The school-age group will decline by 0.9 percent, and the college-age group will increase by 0.2 percent. The working-age population will grow by 700,000 or 3.6 percent. The population of the retirement-age group, those 65 and older, will expand rapidly (19.3 percent). The retirement-age growth will be concentrated in the 65 through 74 age cohort, with a growth rate of 27 percent.

The United States is beginning to undergo some of the most dramatic demographic changes seen in its history. Increasing life expectancies and declining birth rates are changing the age structure of the population. Growth patterns and aging will vary by race and ethnicity. Immigration and the somewhat higher birth rates of immigrants will prevent declining population, but will not stop the effect of the aging of the baby-boomers. As baby-boomers entered schools and then the workforce, society adapted to their requirements and boomers helped frame the current workforce and culture. Further adaptations will be necessary to accommodate an increasingly large numbers of retirees.

The demographic shifts California is experiencing are significant and part of the demographic evolution of the United States. As a primary gateway to the nation, California enjoys a younger population than most states. Part of California's population growth is connected to its location. The state not only has a common border with Mexico, but shares space on the Pacific Rim with several countries that have been key in California's historical development and continue as a source of immigration. Immigration contributes to California's racial and cultural diversity and will help infuse the labor force as baby-boomers retire.

The following table shows California's population data for 2001 through 2012.

TABLE 43
Population 2001-2012

Year	California Population[(a)]	Increase Over Preceding Year	United States Population[(a)]	Increase Over Preceding Year	California as % of United States
2001	34,512,742	1.5%	285,081,556	1.0%	12.1
2002	34,938,290	1.2	287,803,914	1.0	12.1
2003	35,388,928	1.3	290,326,418	0.9	12.2
2004	35,752,765	1.0	293,045,739	0.9	12.2
2005	35,985,582	0.7	295,753,151	0.9	12.2
2006	36,246,822	0.7	298,593,212	1.0	12.1
2007	36,552,529	0.8	301,579,895	1.0	12.1
2008	36,856,222	0.8	304,374,846	0.9	12.1
2009	37,077,204	0.6	307,006,550	0.9	12.1
2010	37,309,382	0.6	309,326,225	0.8	12.1
2011	37,570,366	0.7	311,587,816	0.7	12.1
2012	37,832,036	0.7	313,914,040	0.7	12.1

[(a)] Population as of July 1.

Source: U. S. figures from U.S. Department of Commerce, Bureau of the Census; California figures from State of California, Department of Finance.

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The following table presents civilian labor force data for the resident population, age 16 and over, for the years 2001 to 2012.

TABLE 44
Labor Force 2001-2012

(Thousands)

Year	Labor Force	Employment	Unemployment Rate California	Unemployment Rate United States
2001	17,152	16,220	5.4%	4.7%
2002	17,344	16,181	6.7	5.8
2003	17,391	16,200	6.8	6.0
2004	17,444	16,355	6.2	5.5
2005	17,545	16,592	5.4	5.1
2006	17,687	16,821	4.9	4.6
2007	17,921	16,961	5.4	4.6
2008	18,207	16,894	7.2	5.8
2009	18,216	16,151	11.3	9.3
2010	18,331	16,064	12.4	9.6
2011	18,405	16,237	11.8	8.9
2012	18,495	16,560	10.5	8.1

Source: State of California, Employment Development Department.

Employment, Income, Construction and Export Growth

The following table shows California's nonfarm payroll employment distribution and growth for 2002 and 2012.

TABLE 45
Nonfarm Payroll Employment by Major Sector
2002 and 2012

(Thousands)

	Employment		Distribution of Employment	
Industry Sector	**2002**	**2012**	**2002**	**2012**
Mining and Logging	23.1	30.1	0.2%	0.2%
Construction	774.4	587.5	5.4	4.1
Manufacturing				
Nondurable Goods	584.9	470.0	4.0	3.3
High Technology	433.3	342.4	3.0	2.4
Other durable	615.7	440.4	4.3	3.1
Trade, Transportation & Utilities	2,723.2	2,725.1	18.8	18.9
Information	497.3	430.4	3.4	3.0
Financial Activities	846.7	774.6	5.9	5.4
Professional & Business Services	2,119.9	2,235.1	14.7	15.5
Educational & Health Services	1,504.8	1,879.2	10.4	13.1
Leisure & Hospitality	1,382.4	1,599.1	9.6	11.1
Other Services	505.7	505.7	3.5	3.5
Government				
Federal Government	253.8	249.8	1.8	1.7
State & Local Government	2,193.3	2,125.2	15.2	14.8
TOTAL	**14,458.4**	**14,394.5**	**100.0%**	**100.0%**

Source: State of California, Employment Development Department. (Note figures may not add due to rounding.)

The following tables show California's total and per capita income patterns for selected years.

TABLE 46
Total Personal Income In California 2001-2012[(a)]

(Dollars in Millions)

Year	Total Personal Income	% Change(b)	California % of U.S.
2001	$1,174,489	3.4%	13.1%
2002	1,193,375	1.6	13.0
2003	1,244,351	4.3	13.1
2004	1,321,609	6.2	13.2
2005	1,396,173	5.6	13.2
2006	1,499,452	7.4	13.2
2007	1,564,441	4.3	13.0
2008	1,596,282	2.0	12.8
2009	1,536,430	-3.7	12.7
2010	1,579,148	2.8	12.7
2011	1,683,204	6.6	12.8
2012	1,768,039	5.0	12.9

(a) Estimates for 2001 forward reflect the results of the comprehensive revision to the national income and product accounts (NIPAs) released in July 2013.

(b) Change from Prior Year.

Note: Omits income for government employees overseas.
Source: U.S. Department of Commerce, Bureau of Economic Analysis

TABLE 47
Per Capita Personal Income 2001-2012[(a)]

Year	California	% Change(b)	United States	% Change(b)	California % of U.S.
2001	$34,063	2.0%	$31,524	4.0%	108.1%
2002	34,222	0.5	31,798	0.9	107.6
2003	35,298	3.1	32,676	2.8	108.0
2004	37,150	5.2	34,300	5.0	108.3
2005	38,969	4.9	35,888	4.6	108.6
2006	41,627	6.8	38,127	6.2	109.2
2007	43,157	3.7	39,804	4.4	108.4
2008	43,609	1.0	40,873	2.7	106.7
2009	41,569	-4.7	39,357	-3.7	105.6
2010	42,297	1.8	40,163	2.0	105.3
2011	44,666	5.6	42,298	5.3	105.6
2012	46,477	4.1	43,735	3.4	106.3

(a) Estimates for 2001 forward reflect the results of the comprehensive revision to the national income and product accounts (NIPAs) released in July 2013.

(b) Change from prior year.

Note: Omits income for government employees overseas.
Source: U.S. Department of Commerce, Bureau of Economic Analysis.

The following tables show California's residential and non-residential construction.

TABLE 48
Residential Construction Authorized By Permits
2001-2012

Year	Units: Total	Units: Single	Units: Multiple	Valuation[a] (Dollars in Millions)
2001	148,757	106,902	41,855	$28,804
2002	167,761	123,865	43,896	33,305
2003	195,682	138,762	56,920	38,968
2004	212,960	151,417	61,543	44,777
2005	208,972	155,322	53,650	47,138
2006	164,280	108,021	56,259	38,108
2007	113,034	68,409	44,625	28,621
2008	64,962	33,050	31,912	18,072
2009	36,421	25,454	10,967	12,037
2010	44,762	25,526	19,236	13,731
2011	47,092	21,538	25,554	14,356
2012 p/	57,496	27,282	30,214	16,372

(a) Valuation includes additions and alterations.

p/ Preliminary.

Source: Construction Industry Research Board.

TABLE 49
Non-residential Construction 2001-2012

(Dollars in Thousands)

Year	Commercial	Industrial	Other	Additions and Alterations	Total
2001	$6,195,368	$1,552,047	$2,584,321	$6,421,551	$16,753,287
2002	5,195,348	1,227,754	2,712,681	5,393,329	14,529,112
2003	4,039,561	1,320,222	2,954,039	5,601,117	13,914,939
2004	5,105,541	1,456,283	3,100,982	6,026,567	15,689,373
2005	5,853,351	1,693,373	3,818,100	6,900,709	18,265,533
2006	7,733,068	1,760,888	3,873,055	7,741,610	21,108,621
2007	8,812,083	1,450,875	3,496,471	8,782,424	22,541,853
2008	6,513,610	938,081	2,983,640	8,776,285	19,211,616
2009	1,919,763	359,868	1,984,534	6,602,103	10,866,268
2010	1,990,358	358,338	1,937,166	6,913,901	11,199,763
2011	2,213,037	478,896	2,224,685	8,144,510	13,061,128
2012 p/	2,502,625	1,345,789	1,755,660	6,026,108	11,630,182

p/ Preliminary

Source: Construction Industry Research Board.

The following table shows changes in California's exports for the period from 2001 through 2012.

TABLE 50
Exports Through California Ports 2001-2012

(Dollars in Millions)

Year	Exports[(a)]	% Change[(b)]
2001	$127,255.3	-14.3%
2002	111,340.1	-12.5
2003	113,550.7	2.0
2004	123,039.2	8.4
2005	129,988.9	5.6
2006	147,823.8	13.7
2007	159,549.5	7.9
2008	170,594.2	6.9
2009	137,215.5	-19.6
2010	168,588.3	22.9
2011	189,431.3	12.4
2012	191,750.2	1.2

(a) "Free along ship" value basis.
(b) Change from prior year.
Source: U.S. Department of Commerce, Bureau of the Census

LITIGATION

The state is a party to numerous legal proceedings. The following describes litigation matters that are pending with service of process on the state accomplished and have been identified by the state as having a potentially significant fiscal impact upon the state's revenues or expenditures. The state makes no representation regarding the likely outcome of these litigation matters.

The following description was developed by the state with the participation of the Office of the Attorney General and other state entities. The Office of the Attorney General does not represent the state, its subdivisions, departments, agencies and other units in all litigation matters, and accordingly there may be litigation matters of which the Office of the Attorney General is not aware. The state does not conduct a docket search of federal or state court litigation filings to identify pending litigation and no inquiry has been made into pending administrative proceedings. There may be litigation and administrative proceedings with potentially significant fiscal impacts that have not been described below.

Budget-Related Litigation

Actions Challenging Cap and Trade Program Auctions

In *California Chamber of Commerce, et al. v. California Air Resources Board*, (Sacramento County Superior Court, Case No. 34-2012-80001313), business interests and a taxpayer challenge the authority of the California Air Resources Board to conduct auctions under the state's cap and trade program and allege that the auction revenues are an unconstitutional tax under the state Constitution. A second lawsuit raising substantially similar claims*, Morning Star*

Packing Co., et al. v. California Air Resources Board (Sacramento County Superior Court, Case No. 34-2013-80001464), has been filed and consolidated with the *Chamber of Commerce* matter. Prior to a hearing on August 28, 2013, the trial court tentatively ruled for the Board on the authority claim but made no tentative ruling on the tax claim. A final ruling is expected within 90 days after the hearing.

Actions Challenging School Financing

In *Robles-Wong, et al. v. State of California* (Alameda County Superior Court, Case No. RG-10-515768) and *California Teachers Association ("CTA") Complaint in Intervention*, plaintiffs challenge the state's "education finance system" as unconstitutional. Plaintiffs, consisting of 62 minor school children, various school districts, the California Association of School Administrators, the California School Boards Association and CTA, allege the state has not adequately fulfilled its constitutional obligation to support its public schools, and seek an order enjoining the state from continuing to operate and rely on the current financing system and to develop a new education system that meets constitutional standards as declared by the court. It is currently unknown what the fiscal impact of this matter might be upon the General Fund. In a related matter, *Campaign for Quality Education, et al. v. State of California* (Alameda County Superior Court, Case No. RG-10-524770), plaintiffs also challenge the constitutionality of the state's education finance system. The court issued a ruling that there was no constitutional right to a particular level of school funding. The court allowed plaintiffs to amend their complaint with respect to alleged violation of plaintiffs' right to equal protection. Plaintiffs in each of these matters elected not to amend, and both matters have been dismissed by the trial court. Plaintiffs in each matter have appealed (Court of Appeal, First Appellate District, Case Nos. A134423, A134424).

Plaintiff in *California School Boards Association v. State of California* (Alameda County Superior Court, Case No. RG-11-554698), has filed an amended complaint that challenges the use of block grant funding to pay for education mandates in the 2012 Budget Act and associated trailer bills. The amended complaint also contends that recent changes to the statutes that control how education mandates are directed and funded violate the requirements of the state Constitution that the state pay local school districts for the costs of state mandated programs. If the court declares that the state has failed to properly pay for mandated educational programs, the state will be limited in the manner in which it funds education going forward.

Actions Challenging Statutes Which Reformed California Redevelopment Law

In *California Redevelopment Association, et al. v. Matosantos, et al.* (California Supreme Court, Case No. S194861), the California Supreme Court upheld the validity of legislation ("ABx1 26") dissolving all local Redevelopment Agencies ("RDAs") and invalidated a second law ("ABx1 27") that would have permitted existing RDAs to convert themselves into a new form of RDA and continue to exist, although they would have to pay higher fees to school, fire and transit districts to do so.

A second case challenging the constitutionality of these statutes, *City of Cerritos, et al. v. State of California* (Sacramento County Superior Court, Case No. 34-2011-80000952) raises the same theories advanced in the California Supreme Court action, and also contains challenges based on claimed violations of the single subject rule and the contracts clause, the statutes being outside scope of the proclamation calling the Legislature into special session, and the failure to obtain a 2/3 vote to pass the statutes. On January 27, 2012, the trial court denied the petitioners' motion for a preliminary injunction seeking to block implementation of ABx1 26. Plaintiffs appealed (Court of Appeal, Third Appellate District, Case No. C070484). Plaintiffs' request to stay portions of ABx1 26 was denied by the appellate court.

There are over 100 pending actions that challenge implementation of the statutory process for winding down the affairs of the RDAs, asserting a variety of claims including constitutional claims. Some of the pending cases challenge AB 1484, which requires successor agencies to the former RDAs to remit by July 2012 certain property tax revenues for fiscal year 2011-12 that the successor agency had received, or face a penalty. Some cases challenge other provisions in ABx1 26 or AB 1484 that require successor agencies to remit various funds of former RDAs. One case, *League of California Cities, et al. v. Matosantos, et al.* (Sacramento County Superior Court, Case No. 34-2012-80001275), challenges the statutory mechanisms for the Department of Finance or the county auditor-controller to recover these disputed amounts. The trial court denied the petition for a writ in this matter but granted petitioners' motion for reconsideration. Another matter asserting similar arguments was heard by the trial court on September 20, 2013, and the court has requested supplemental briefing. City of Bellflower, et al. v. Matosantos, et al. (Sacramento County Superior Court, Case No. 34-2012-80001269). Other cases challenge the implementation of ABx1 26, contending that various obligations incurred by the RDAs are enforceable obligations entitled to payment from tax revenues under ABx 1 26. In *Affordable Housing Coalition v. Sandoval* (Sacramento County Superior Court, Case No. 34 2012-80001158), plaintiffs argue that all former RDAs had obligations to pay for affordable housing that should be funded going forward on an implied contracts theory. A motion for class action status in this matter was denied.

One case that challenges ABx1 26 was filed by plaintiffs who insured bonds issued by now-dissolved RDAs. In *Syncora Guarantee Inc., et al. v. State of California, et al.* (Sacramento County Superior Court, Case No. 34-2012-80001215), plaintiffs allege that ABx1 26 constitutes an impairment of contract and a taking of property without just compensation, in violation of both the U.S. and California Constitutions. The trial court denied plaintiffs' request for injunctive relief, including an order requiring the tax revenues remitted by the successor agencies to local taxing entities be returned and held in trust for the bondholders until the bonds are paid.

Actions Regarding Furlough of State Employees

In several cases, petitioners challenged Governor Schwarzenegger's executive orders directing the furlough without pay of state employees. The first order, issued on December 19, 2008, directed furloughs for two days per month, effective February 1, 2009 through June 30, 2010. The second, issued on July 1, 2009, required a third furlough day per month, effective through June 30, 2010. On July 28, 2010, Governor Schwarzenegger issued a new executive order requiring furloughs for three days per month beginning August 1, 2010, until a new 2010 Budget Act was adopted and the Director of the Department of Finance determined that the state had sufficient cash flow to pay for essential services.

On October 4, 2010, the California Supreme Court, ruling in three consolidated cases, upheld the validity of the two day per month furloughs implemented by the Governor's December 2008 order on the ground that the Legislature had ratified these furloughs in enacting the 2008 budget revision. *Professional Engineers in California Government ("PECG"), et al. v. Schwarzenegger, et al.* (California Supreme Court, Case No. S183411).

Most of the remaining cases that challenge the two furlough orders issued in July 2009 and/or July 2010 have been dismissed or settled. The pending cases include the following:

Two cases pending in Alameda County Superior Court challenge the furloughs of certain categories of employees, such as those paid from funds other than the General Fund or who otherwise assert a claim not to be furloughed on a basis outside of the rationale of the California Supreme Court decision. These two cases are *PECG v. Schwarzenegger, et al.* (Alameda County Superior Court, Case No. RG 10 494800) and *California Association of Professional Scientists v. Schwarzenegger, et al.* (Alameda County Superior Court, Case No. RG-10-530845). The trial court granted the petition in part, finding that two furlough days in March 2011, were unlawful for specified employees. The state appealed (Court of Appeal, First Appellate District, Case No. A136338).

In *Horton v. Brown, et al.* (Sacramento County Superior Court, Case No. 34-2012-00125438), plaintiff asserts a class action on behalf of all gubernatorial and certain other appointees. The complaint alleges that such appointees were exempt from civil service rules, and therefore should not have been furloughed. The trial court granted the state's motion to strike certain claims and the appellate court rejected the plaintiff's appeal (Court of Appeal, Third District, Case No. C073117). Because the putative class is limited, any fiscal impact on the state's General Fund is expected to be modest.

In *PECG, et al. v. Brown et al.* (Alameda County Superior Court, Case No. RG-13-673444) PECG challenges the implementation of the 2012 furlough program, for the period of July 1, 2012 through June 2013, alleging an unlawful impairment of contractual rights in the bargaining agreement.

In *Vent v. Brown, et al.* (Sacramento County Superior Court, Case No. 34-2013-80001576), an individual state employee challenges both Governor Schwarzenegger's furlough order and the 2012 furlough program and seeks back pay for herself and other attorneys employed by the state.

Tax Cases

Six actions have been filed contending that the Legislature's modification of Revenue and Taxation Code Section 25128, which implemented the double-weighting of the sales factor in California's apportionment of income formula for the taxation of multistate business entities, is invalid and/or unconstitutional. *Kimberly-Clark Worldwide, Inc., et al. v. Franchise Tax Board* (San Francisco County Superior Court, Case No. CGC-10-495916); *Gillette Company and Subsidiaries v. Franchise Tax Board* (San Francisco County Superior Court, Case No. CGC-10-495911); *Procter & Gamble Manufacturing Company & Affiliates v. Franchise Tax Board* (San Francisco County Superior Court, Case No. CGC 10 495912); *Sigma-Aldrich, Inc. and Affiliates* *v. Franchise Tax Board* (San Francisco County Superior Court, Case No. CGC-10-496437); *RB Holdings (USA), Inc. v. Franchise Tax Board* (San Francisco County Superior Court, Case No. CGC-10-496438); and *Jones Apparel Group v. Franchise Tax Board* (San Francisco County Superior Court, Case No. CGC-10-499083), now consolidated in one matter, collectively referred to as *Gillette Company v. Franchise Tax Board*. Plaintiffs contend that the single-weighted sales factor specified in Section 25128 prior to amendment was contained within the Multistate Tax Compact ("Compact") and therefore cannot be modified without repealing the legislation that enacted the Compact. An adverse ruling in these cases would affect multiple taxpayers and create potential exposure to refund claims in excess of $750 million. The trial court ruled for the state in each of these matters, but, on appeal, the trial court judgment was reversed (Court of Appeal, First Appellate District, Case No. A130803). In its decision issued in October 2012, the appellate court held that the Compact was valid and the state was bound by its provisions for the tax years at issue because the state had not withdrawn from the Compact. The court also held that in attempting to override the contractual terms of the Compact, section 25128 violated the constitutional protections against impairment of contract. The California Supreme Court granted the state's petition for review (California Supreme Court Case No. S206587). See "STATE FINANCES – Sources of Tax Revenue – Corporation Tax."

A pending case challenges the fee imposed by the state tax code upon limited liability companies ("LLCs") registered in California, alleging that it discriminates against interstate commerce and violates the U.S. and the state Constitutions, is an improper exercise of the state's police powers, and has been misapplied by the Franchise Tax Board. *Bakersfield Mall LLC v. Franchise Tax Board* (San Francisco County Superior Court, Case No. CGC-07-462728). *Bakersfield Mall* was filed as a purported class action on behalf of all LLCs operating solely in California. Plaintiff filed an amended complaint to allege that not all of its income is derived solely from sources in California, which would call into question the class plaintiff purports to represent. A second lawsuit that is virtually identical to *Bakersfield Mall* also seeks to proceed as a class action. *CA-Centerside II, LLC v. Franchise Tax Board* (Fresno County Superior Court, Case No. 10 CECG00434). The cases are coordinated for hearing in San Francisco as the *Franchise Tax Board LLC Tax Refund Cases,* Judicial Council Proceeding No. 4742. *The coordination trial judge denied the plaintiffs' joint motion for class certification. If this immediately appealable order is reversed and* the cases proceed as class actions, the claimed refunds could be significant (in excess of $500 million).

Lucent Technologies, Inc. v. State Board of Equalization ("Lucent I") (Los Angeles County Superior Court, Case No. BC 402036), a tax refund case, involves the interpretation of certain statutory sales and use tax-exemptions relating to computer software and licenses to use computer software that are transferred pursuant to technology transfer agreements. A second case, *Lucent Technologies, Inc. v. State Board of Equalization ("Lucent II")* (Los Angeles County Superior Court, Case No. BC 448715), involving the same issue but for different tax years than in the *Lucent I* matter, has been consolidated with the *Lucent I* case. In a similar case, *Nortel Networks Inc. v. State Board of Equalization* (Los Angeles County Superior Court, Case No. BC 341568), the trial court ruled in favor of plaintiff and the ruling was affirmed on appeal (Court of Appeal, Second Appellate District, Case No. B213415, California Supreme Court, Case No. S190946). The adverse ruling in the *Nortel* matter, unless limited in scope by a decision in the *Lucent* matters, if applied to other similarly situated taxpayers, could have a significant negative impact, in the range of approximately $300 million annually, on tax revenues. In the *Lucent* matters, the trial court granted plaintiffs' motion for summary judgment and denied the Board of Equalization's motion for summary judgment.

Environmental Matters

In a federal Environmental Protection Agency ("U.S. EPA") administrative abatement action titled *In the Matter of: Leviathan Mine, Alpine County, California, Regional Water Quality Control Board, Lahontan Region, State of California* (U.S. EPA Region IX CERCLA Docket No. 00-16(a)), the state, as owner of the inactive Leviathan Mine, is a responsible party through the Lahontan Regional Water Quality Control Board ("Regional Board"). The Atlantic Richfield Company ("ARCO") is also a responsible party as the successor in interest to the mining company that caused certain pollution of the mine site. The Leviathan Mine site ("Site") is listed on the U.S. EPA "Superfund" List, and both remediation costs and costs for natural resources damages may be imposed on the state. The alleged bases for the state's liability are the state's ownership of the Site and the terms of a 1983 settlement agreement between the Regional Board and ARCO. The Regional Board purchased the Site to abate the pollution and has undertaken certain remedial actions ("Project"), but the U.S. EPA's decision on the interim and final remedies is pending. ARCO has sued the state, the State Water Resources Control Board, and the Regional Board, seeking to recover past and future clean-up costs, based on the settlement agreement, the state's ownership of the property, and the Regional Board's allegedly defective Project. The October 2012 trial date for this matter *was* postponed *until March 2014* to permit the parties to continue settlement negotiations. *Atlantic Richfield Co. v. State of California* (Los Angeles County Superior Court, Case No. BC 380474). It is possible these matters if determined adversely to the state could result in potential liability in the hundreds of millions of dollars.

In *Pacific Lumber Company, et al. v. State of California, et al.* (Sacramento County Superior Court, Case No. 34-2009-00042016), plaintiffs seek damages against the state for an alleged breach of the Headwaters Agreement. The Headwaters Agreement, reached in 1996, involved the sale of certain timberlands by plaintiffs to federal and state agencies. Plaintiffs allege that the state's environmental regulation of plaintiffs' remaining timberlands since the Headwaters Agreement constitutes a breach of the Agreement. The state denies plaintiffs' allegations. The current plaintiffs are successors in interest to the original plaintiffs, who filed a bankruptcy proceeding and have since dissolved. In that proceeding, the debtors claimed that the value of the litigation ranges from $626 million to $639 million in the event they could establish liability. It is currently unknown what the fiscal impact of this matter might be upon the General Fund. The trial court granted the state's motion for summary judgment and plaintiffs appealed (*Avidity Partners, LLC v. State of California*, Court of Appeal, Third Appellate District, Case No. C070255).

In *Consolidated Suction Dredge Mining Cases (Karuk Tribe v. DFG)* (Alameda, Siskiyou, and San Bernardino County Superior Courts), environmental and mining interests challenge the state's regulation of suction dredge gold mining. After initially prohibiting such mining in the state except pursuant to a permit issued by the Department of Fish and Wildlife (formerly Fish and Game) under specified circumstances, the Legislature subsequently placed a moratorium on all suction dredging until certain conditions are met by the Department of Fish and Wildlife. The cases are coordinated for hearing in San Bernardino County Superior Court

(Case No. JCPDS4720). One of these matters, *The New 49'ERS, Inc. et al. v. California Department of Fish and Game*, claims that federal law preempts and prohibits state regulation of suction dredge mining on federal land. Plaintiffs, who have pled a class action but have yet to seek certification, claim that as many as 11,000 claims, at a value of $500,000 per claim, have been taken.

In *City of Colton v. American Promotional Events, Inc., et al.* (Los Angeles County Superior Court, Case No. BC 376008), two defendants in an action involving liability for contaminated groundwater have filed cross complaints seeking indemnification from the state and the Regional Water Quality Control Board in an amount of up to $300 million. In a related action, *Emhart Industries v. Regional Water Quality Control Board* (Los Angeles County Superior Court, Case No. BC 472949), another defendant in an action involving liability for contaminated groundwater seeks indemnification from the state and the Regional Water Quality Control Board in an amount up to $300 million.

Escheated Property Claims

In *Taylor v. Chiang* (U.S. District Court, Eastern District, Case No. S-01-2407 WBS GGH), plaintiffs claim that the state's unclaimed property program violates the United States Constitution and various federal and state laws. They assert that the state has an obligation to pay interest on private property that has escheated to the state, and that failure to do so constitutes an unconstitutional taking of private property. Although the case is styled as a class action, no class has been certified. Plaintiffs also assert that for the escheated property that has been disposed of by the state, plaintiffs are entitled to recover, in addition to the proceeds of such sale, any difference between the sale price and the property's highest market value during the time the state held it; the state asserts that such claims for damages are barred by the Eleventh Amendment. The district court ruled against plaintiffs in a related action, *Suever v. Connell* (U.S. District Court, Northern District, Case No. C03-00156 RS). The Ninth Circuit affirmed and the United States Supreme Court denied review. Meanwhile, the *Taylor* plaintiffs amended their complaint to allege that the Controller applies the Unclaimed Property Law's notice requirements in ways that violate state and federal law, and the district court granted the state's motion to dismiss plaintiffs' claims. Plaintiffs appealed this ruling to the Ninth Circuit.

Actions Seeking Damages for Alleged Violations of Privacy Rights

In *Gail Marie Harrington-Wisely, et al. v. State of California, et al.* (Los Angeles County Superior Court, Case No. BC 227373), plaintiffs seek damages, asserting that the use by the California Department of Corrections and Rehabilitation ("CDCR") of a body-imaging machine to search visitors entering state prisons for contraband violated the rights of the visitors. This matter was certified as a class action. The trial court granted judgment in favor of the state. Plaintiffs' appeal was dismissed (Court of Appeal, Second Appellate District, Case No. B190431) and the trial court denied plaintiffs' motion for attorneys' fees. The parties agreed to a stipulated judgment and dismissed the case subject to further review if CDCR decides to use similar technology in the future. Plaintiffs have filed another appeal. (Court of Appeal, Second Appellate District, Case Nos. B248565, B250198.) If plaintiffs were successful in obtaining an award of damages for every use of the body-imaging machine, damages could be as high as $3 billion.

Plaintiff in *Gilbert P. Hyatt v. Franchise Tax Board* (State of Nevada, Clark County District Court, Case No. A382999) was subject to an audit by the Franchise Tax Board involving a claimed change of residence from California to Nevada. Plaintiff alleges a number of separate torts involving privacy rights and interference with his business relationships arising from the audit. The trial court ruled that plaintiff had not established a causal relation between the audit and the loss of his licensing business with Japanese companies; the Nevada Supreme Court denied review of this ruling. The economic damages claim exceeded \$500 million. On the remaining claims, the jury awarded damages of approximately \$387 million, including punitive damages, and over \$1 million in attorneys' fees. The total judgment with interest is approximately \$490 million. The state appealed and the Nevada Supreme Court has granted a stay of execution on the judgment pending appeal. The state will vigorously pursue its appeal of this unprecedented award.

Action Regarding Special Education

Plaintiffs in *Morgan Hill Concerned Parents Assoc. v. California Department of Education* (United States District Court, Eastern District of California, No. 2:11-cv-3471-KJM), challenge the oversight and operation by the California Department of Education ("CDE") of the federal Individuals with Disabilities Education Act ("IDEA"). The complaint alleges that CDE, as the designated State Education Agency (SEA), has failed to monitor, investigate, and enforce the IDEA statewide. Under the IDEA, local school districts are the Local Educational Agencies (LEA) responsible for delivering special education directly to eligible students. The complaint seeks injunctive and declaratory relief, and asks the court to retain jurisdiction to monitor the operation of the IDEA by the state.

Actions Regarding Medi-Cal Reimbursements and Fees

In *Orinda Convalescent Hospital Inc., et al. v. Department of Health Services, et al.* (Sacramento County Superior Court, Case No. 06CS01592), plaintiffs challenge a quality assurance fee ("QAF") charged to skilled nursing facilities that was enacted in 2004, alleging violations of the federal and state constitutions and state law. Funds assessed under the QAF are made available, in part, to enhance federal financial participation in the Medi-Cal program. Plaintiffs seek a refund of fees paid. On March 25, 2011, the trial court ruled the QAF is properly characterized as a "tax" rather than a "fee." Trial then proceeded on plaintiffs' claims for refund of QAF amounts paid as an allegedly illegal and improperly collected tax. The QAF amounts collected from all providers to date total nearly \$2 billion, and California has received additional federal financial participation based on its imposition and collection of the QAF. An adverse ruling could negatively affect the state's receipt of federal funds. The trial court ruled for the state, finding that the QAF is constitutionally valid. Plaintiffs appealed (Court of Appeal, Third Appellate District, Case No. C070361).

A series of federal court cases challenging state legislation requiring reductions in Medi-Cal reimbursements (under AB 5 and AB 1183) were argued before the United States Supreme Court last year and remanded to the Ninth Circuit Court of Appeal, where they remain in mediation. *Independent Living Center of Southern California, et al. v. Shewry, et al.* (U.S. District Court, Central District, Case No. CV 08-3315 CAS (MANx)) (AB 5 reductions for various Medi-Cal services); *California Pharmacists Association, et al. v. Maxwell-Jolly, et al.*

(U.S. District Court, Central District, Case No. CV09-0722) (AB 1183 reductions for doctors, hospitals, pharmacists, and other providers); and *Managed Pharmacy Care, et al. v. Maxwell-Jolly, et al.* (U.S. District Court, Central District, Case No. CV09-00382) (AB 1183 reductions for prescription drugs). The district court enjoined certain of the reductions and the Ninth Circuit affirmed. (U.S. Court of Appeals, Ninth Circuit, Case No. 08-56422.) After the United States Supreme Court heard argument but before it decided the cases, DHCS reached an agreement with the federal government under which DHCS withdrew most of its pending requests for approvals of the reductions (referred to as State Plan Amendments (SPAs)) for the period in which the reductions had been enjoined and received approval for the SPAs for the periods for which reductions had not been enjoined. The United States Supreme Court (United States Supreme Court, Case No. 09-958) vacated the judgment and remanded the matters to the Ninth Circuit for further review in light of the federal government's intervening action approving the state's plan to implement the rate reductions. The parties are currently mediating their remaining claims regarding the reductions.

In *California Medical Association, et al. v. Shewry, et al.* (Los Angeles County Superior Court, Case No. BC 390126), professional associations representing Medi-Cal providers seek to enjoin implementation of the 10 percent Medi-Cal rate reductions that were to go into effect on July 1, 2008, alleging that the legislation violates federal Medicaid requirements, state laws and regulations, and the state Constitution. The trial court denied plaintiffs' motion for a preliminary injunction. Plaintiffs filed an appeal, which was dismissed at their request. (Court of Appeal, Second Appellate District, Case No. B210440.) Plaintiffs have indicated that they will file an amended petition seeking the retrospective relief the Ninth Circuit awarded in the *Independent Living Center* case, discussed above, after final disposition of that case. The matter is stayed pending final resolution in the *Independent Living Center* matter. A final decision adverse to the state in this matter could result in costs to the General Fund of $508.2 million.

In *California Pharmacists Association, et al. v. Maxwell-Jolly, et al.* (U.S. District Court, Central District, Case No. CV09-08200), Medi-Cal pharmacy providers filed a suit challenging reimbursement rates, including the use by DHCS of reduced published average wholesale price data to establish reimbursement rates, and challenging the Legislature's amendment of Welfare and Institutions Code section 14105.45 and enactment of Welfare and Institutions Code section 14105.455. Plaintiffs seek injunctive relief based on alleged violations of federal law. The district court granted a request for preliminary injunction in part, with respect to sections 14104.45 and 14105.455, and denied it in part, with respect to the use of reduced published average wholesale price data to establish reimbursement rates. Plaintiffs filed a motion seeking to modify the district court ruling, and both parties filed notices of appeal to the Ninth Circuit Court of Appeals. Proceedings in the Ninth Circuit and the district court were stayed pending the outcome of review by the United States Supreme Court, in the *Independent Living Center* case, discussed above. The Ninth Circuit has lifted the stay. The parties have requested mediation. At this time it is unknown what fiscal impact this case would have on the state's General Fund.

In *Centinela Freeman Emergency Medical Associates, et al. v. Maxwell-Jolly, et al.* (Los Angeles County Superior Court, Case No. BC 406372), filed as a class action on behalf of emergency room physicians and emergency department groups, plaintiffs claim that Medi-Cal rates for emergency room physicians are below the cost of providing care. The trial court granted the petition of the plaintiffs and ordered DHCS to conduct an annual review of reimbursement rates for physicians and dentists pursuant to Welfare and Institutions Code section 14079. A final decision in this matter adverse to the state could result in costs to the General Fund of $250 million.

In *Sierra Medical Services Alliance, et al. v. Maxwell-Jolly, et al.* (U.S. District Court, Central District, Case No. CV10-04182), emergency medical transportation companies challenge California regulations that set Medi-Cal reimbursement rates paid for medical transportation services. Plaintiffs seek damages and injunctive relief under the Supremacy Clause, the Takings Clause, the Due Process Clause, and 42 U.S.C. §1983. The case had been stayed pending the decision of the Ninth Circuit in other rate cases but the court granted plaintiffs' unopposed motion to lift the stay and file a first amended complaint. At this time it is unknown what fiscal impact this case would have on the state's General Fund.

In *California Hospital Association v. Maxwell-Jolly, et al.* (Sacramento County Superior Court, Case No. 34-2010-80000673), plaintiff challenges limits on Medi-Cal reimbursement rates for hospital services enacted in 2008, and which were to take effect October 1, 2008 or March 1, 2009, as allegedly violating federal law. Plaintiff seeks to enjoin the implementation of the limits. This matter is currently stayed. At this time it is unknown what fiscal impact this matter may have on the state's General Fund.

Medicaid providers and beneficiaries filed four law suits against both the State and the federal government, seeking to enjoin a set of rate reductions (the AB 97 reductions) that were approved by the federal government in October 2011 with an effective date of June 1, 2011. *Managed Pharmacy Care, et al., v. Sebelius* (U.S. District Court, Central District, Case No. 2:11-cv-09211-CAS(MANx)); *California Medical Assoc., et al., v. Douglas* (U.S. District Court, Central District, Case, No. 2:11-cv-09688-CAS (MANx); *California Medical Transportation Assoc. Inc., v. Douglas* (U.S. District Court, Central District, Case No. 2:11-cv-09830-CAS (MANx)); *California Hospital Association, et al., v. Douglas* (U.S. District Court, Central District, Case No. CV-11-09078 CAS (MRWx). The Medicaid rates at issue in the four cases include pharmacy service and prescription drugs; services provided by skilled nursing facilities that are distinct part units within a hospital; non-emergency medical transportation services; physician services; dental services; durable medical equipment; and emergency ambulance services. The district court entered a series of preliminary injunctions to prevent the rate reductions from taking effect. Both the federal and state government (DHCS) appealed to the Ninth Circuit Court of Appeals. The Ninth Circuit reversed the district court, vacated the preliminary injunctions, and remanded the case. The Ninth Circuit denied plaintiffs' petitions for rehearing and request for a stay. The United States Supreme Court has also denied plaintiffs' requests for a stay. Plaintiffs filed two petitions for certiorari in the United States Supreme Court challenging the Ninth Circuit's decision.

Prison Healthcare Reform and Reduction of Prison Population

The adult prison health care delivery system includes medical health care, mental health care and dental health care. There are two significant cases pending in federal district courts challenging the constitutionality of prison health care. *Plata v. Brown* (U.S. District Court, Northern District, Case No. C 01-1351 TEH) is a class action regarding the adequacy of medical health care; and *Coleman v. Brown* (U.S. District Court, Eastern District, Case No. CIV S-90-0520 LKK JFM P) is a class action regarding mental health care. A third case, *Armstrong v. Brown* (U.S. District Court, Northern District, Case No. C 94-02307 CW) is a class action on behalf of inmates with disabilities alleging violations of the Americans with Disabilities Act and Section 504 of the Rehabilitation Act. In *Plata* the district court appointed a Receiver, who took office in April 2006, to run and operate the medical health care portion of the health care delivery system. The *Plata* Receiver and the Special Master appointed by the *Coleman* court, joined by the court representative appointed by the *Armstrong* court, meet routinely to coordinate efforts in these cases. To date, ongoing costs of remedial activities have been incorporated into the state's budget process. However, at this time, it is unknown what future financial impact this litigation may have on the state's General Fund.

In *Plata* and *Coleman*, discussed above, a three-judge panel was convened to consider plaintiffs' motion for a prisoner-release order. The motions alleged that prison overcrowding was the primary cause of unconstitutional medical and mental health care. After a trial, the panel issued a prisoner release order and ordered the state to prepare a plan for the reduction of approximately 40,000 prisoners over two years. The state filed its prisoner-reduction plan with the three-judge panel and filed an appeal in the United States Supreme Court. The United States Supreme Court affirmed the prisoner release order.

On January 7, 2013, the state moved to terminate the *Coleman* matter arguing that the prison mental health-care system is constitutional. The district court denied the state's motion and the state appealed to the Ninth Circuit. In January 2013, the state also moved to vacate the three-judge panel's prisoner-release order arguing that further population reductions are unnecessary in order for the state to provide appropriate health care to the prison population. The three-judge panel denied the state's motion and ordered the state to meet the court-ordered reduction by December 31, 2013. The state requested a stay of the order, which was denied by the United States Supreme Court. The state*'s request for* review of the court-ordered reduction *was also denied* by the United States Supreme Court. Based on enactment of SB 105, which appropriated $315 million for a mix of increased prison capacity and long-term reforms to control prison crowding, the state asked the three-judge panel for a three-year extension of the deadline for compliance with the population cap. On September 24, 2013, the panel granted a one-month extension to allow the parties to meet and confer in a confidential mediation process, *and on* October 21, 2013, *the panel granted an additional one-month extension to allow the parties to continue to meet and confer. The parties must report on that process by November 18, 2013.*.

Actions Regarding Proposed Sale of State-Owned Properties

Two taxpayers filed a lawsuit seeking to enjoin the sale of state-owned office properties, which was originally scheduled to close in December 2010, on the grounds that the sale of certain of the buildings that house appellate court facilities required the approval of the Judicial Council, which had not been obtained, and that the entire sale constituted a gift of public funds in violation of the state Constitution and a waste of public funds in violation of state law. *Epstein, et al. v. Schwarzenegger, et al.* (San Francisco County Superior Court, Case. No. CGC-10-505436). Plaintiffs' request for a preliminary injunction was denied. In a second action filed after the state decided not to proceed with the sale, and now coordinated with the *Epstein* matter, the prospective purchaser seeks to compel the state to proceed with the sale of the state-owned properties, or alternatively, for damages for breach of contract. *California First, LP v. California Department of General Services, et al.* (Los Angeles County Superior Court, Case No. BC457070). The trial court denied the state's motion for judgment on the pleadings, in which the state asserted that the plaintiff should not be permitted to pursue claims for damages.

High-Speed Rail Litigation

In *Tos, et al. v. California High-Speed Rail Authority, et al*. (Sacramento County Superior Court, Case No. 34-2011-00113919), petitioners claim that the Authority has not complied with the state high-speed rail bond act in approving plans for the high-speed rail system. In *Tos*, the trial court ruled that the Authority's plan for funding the high-speed rail project did not comply with certain requirements in the bond act, and scheduled further briefing and a hearing regarding the appropriate remedy, if any. In *High-Speed Rail Authority, et al. v. All Persons Interested, etc.* (Sacramento County Superior Court, Case No. 34-2013-00140689), the Authority is seeking to validate issuance of the bonds authorized under the bond act for high-speed rail system. A hearing was held in the validation proceeding on September 27, 2013, and the matter was taken under submission by the trial court. In the event of a ruling adverse to the state in these pending matters that delays or prevents issuance of the bonds, it is possible that the federal government may require the state to reimburse federal funds provided for the high-speed rail project. The potential amount of any such reimbursement cannot be determined at this time.

BANK ARRANGEMENTS

The table immediately following the text of APPENDIX A, prior to the State Debt Tables, includes certain information relating to bank arrangements the state has entered into. See also "STATE INDEBTEDNESS AND OTHER OBLIGATIONS – Capital Facilities Financing – Bank Arrangements."

STATE DEBT TABLES

The tables which follow provide information on outstanding state debt, authorized but unissued general obligation bonds and commercial paper notes, debt service requirements for state general obligation and lease-revenue bonds, and authorized and outstanding state revenue bonds. The table titled "Bank Arrangements" contains certain information relating to letters of credit, liquidity facilities and other bank arrangements in connection with variable rate obligations and commercial paper notes. Also, see "STATE INDEBTEDNESS AND OTHER OBLIGATIONS." For purposes of these tables, "General Fund bonds," also known as "non-self liquidating bonds," are general obligation bonds expected to be paid from the General Fund without reimbursement from any other fund. Although the principal of general obligation commercial paper notes in the "non-self liquidating" category is legally payable from the General Fund, the state expects that principal of such commercial paper notes will be paid only from the issuance of new commercial paper notes or the issuance of long-term general obligation bonds to retire the commercial paper notes. Interest on "non-self liquidating" general obligation commercial paper notes is payable from the General Fund.

"Enterprise Fund bonds," also known as "self liquidating bonds," are general obligation bonds for which program revenues are expected to be sufficient to reimburse in full the General Fund for debt service payments, but any failure to make such a reimbursement does not affect the obligation of the state to pay principal and interest on the bonds from the General Fund.

"Special Revenue Fund bonds" also known as Economic Recovery Bonds or ERBs, are "self liquidating" general obligation bonds which are primarily secured by a pledge of a one-quarter cent statewide sales and use tax deposited in the Fiscal Recovery Fund. Debt service payments are made directly from the Fiscal Recovery Fund and not the General Fund. The Special Revenue Fund bonds are also general obligations of the state to which the full faith and credit of the state are pledged to the punctual payment of the principal of and interest thereon, if the sales tax revenues are insufficient.

As of October 17, 2013, there was $1,134,555,000 of commercial paper notes outstanding.

The tables following do not include the following bond sales:

- $754,405,000 Various Purpose General Obligation Bonds and Refunding General Obligation Bonds issued on September 10, 2013. This sale included $205,000,000 of new money bonds, with the rest consisting of current refunding bonds.

- $460,420,000 State Public Works Board of the State of California Lease Revenue Bonds 2013, Series F, Series G and Series H issued on October 9, 2013.

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BANK ARRANGEMENTS TABLE

(See "STATE INDEBTEDNESS AND OTHER OBLIGATIONS – Capital Facilities Financing – Bank Arrangements.")

As of September 15, 2013

Program	Series	Outstanding Par Amount[(a)]	Credit Provider	Expiration	Type of Credit	Reset Mode
GO VRDOs	2003A 1	$50,000,000	JP Morgan Chase	12/1/2014	LOC	Daily
	2003A 2-3	$200,000,000	Bank of Montreal	10/16/2015	LOC	Daily
GO VRDOs	2003B 1-4	$250,000,000	JP Morgan Chase (60.0%)	11/21/2014	LOC	Weekly
			CA Public Employees' Retirement System (20.0%)			
			CA State Teachers Retirement Syst. (20.0%)			
GO VRDOs	2003C 1	$100,000,000	Bank of America, N.A.	12/1/2014	LOC	Weekly
	2003C 3-4	$100,000,000	Citibank, N.A.	10/15/2015	LOC	Weekly
GO VRDOs	2004A 1, 4 & 5	$200,000,000	Citibank, N.A.	10/15/2015	LOC	Daily
GO VRDOs	2004A 2 &3	$150,000,000	State Street Bank & Trust Company (75%)	10/12/2015	LOC	Daily
			CA State Teachers Retirement Syst. (25%)			
GO VRDOs	2004A 6, 7, 8 & 10	$200,000,000	Citibank, N.A.	10/15/2015	LOC	Weekly
GO VRDOs	2004A 9	$50,000,000	State Street Bank & Trust Company (75%)	10/12/2015	LOC	Weekly
			CA State Teachers Retirement Syst. (25%)			
GO VRDOs	2004B 1-3	$165,000,000	Citibank, N.A.	10/15/2015	LOC	Daily
GO VRDOs	2004B 4	$35,000,000	Citibank, N.A.	10/15/2015	LOC	Weekly
GO VRDOs	2004B 5-6	$100,000,000	US Bank	4/6/2015	LOC	Weekly
GO VRDOs	2005A-1	$171,600,000	Royal Bank of Canada	11/12/2013	LOC	Weekly
GO VRDOs	2005A-2-1	$143,200,000	Barclays	4/11/2014	LOC	Weekly
GO VRDOs	2005A-2-2	$28,400,000	Royal Bank of Canada	11/12/2013	LOC	Weekly
GO VRDOs	2005A-3	$49,100,000	Bank of America, N.A.	11/10/2014	LOC	Weekly

Program	Series	Outstanding Par Amount[a]	Credit Provider	Expiration	Type of Credit	Reset Mode
GO VRDOs	2005B-1	$147,100,000	Bank of America, N.A.	11/10/2014	LOC	Weekly
GO VRDOs	2005B-2	$98,100,000	JP Morgan Chase	11/10/2014	LOC	Weekly
GO VRDOs	2005B-3	$49,100,000	Barclays	4/11/2014	LOC	Weekly
GO VRDOs	2005B-4	$49,100,000	JP Morgan Chase	11/10/2014	LOC	Weekly
GO VRDOs	2005B-5	$88,890,000	Barclays	4/11/2014	LOC	Weekly
GO VRDOs	2005B-7	$49,100,000	JP Morgan Chase	11/10/2014	LOC	Daily
Total GO VRDOs		**$2,473,690,00**				
ERB VRDOs	2004C-4	$110,370,000	JP Morgan Chase	6/13/2014	LOC	Daily
Total ERB VRDOs		**$110,370,000**				
GO CP [a]	A1/B1	$624,000,000	Wells Fargo Bank, N.A.(80.128%)	12/19/2014	LOC	Up to
			CA State Teachers Retirement Syst.(19.872%)			90 days
	A2/B2	$500,000,000	Royal Bank of Canada	12/19/2014	LOC	Up to 90 days
	A3/B3	$200,000,000	JP Morgan Chase(50%)	12/20/2013		
			CA Public Employees' Retirement System (25%)		LOC	Up to 90 days
			CA State Teachers Retirement Syst(25%)			
	A4/B4	$150,000,000	Morgan Stanley	12/19/2014	LOC	Up to 90 days
	A5/B5	$125,000,000	US Bank	12/19/2014	LOC	Up to 90 days
	A6/B6	$50,000,000	Bank of America, N.A.	12/19/2014	LOC	Up to 90 days
Total CP		$1,649,000,000				
Total Par		**$4,233,060,000**				

(a) For commercial paper (CP), the total outstanding par represents the maximum principal commitment under the related LOC.

Source: State Treasurer's Office.

OUTSTANDING STATE DEBT
FISCAL YEARS 2008-09 THROUGH 2012-13
(Dollars in Thousands Except for Per Capita Information)

	2008-09	2009-10	2010-11	2011-12	2012-13
Outstanding Debt (a)					
General Obligation Bonds					
General Fund (Non-Self Liquidating)...................	$ 59,037,759	$ 68,766,304	$ 71,283,705	$ 73,060,865	$ 74,456,230
Enterprise Fund (Self Liquidating).......................	$ 1,655,265	$ 1,475,440	$ 1,216,115	$ 1,115,935	$ 884,180
Special Revenue Fund (Self Liquidating).............	$ 8,223,450	$ 7,720,220	$ 6,787,220	$ 5,910,480	$ 4,731,745
Total General Obligation Bonds..............................	$ 68,916,474	$ 77,961,964	$ 79,287,040	$ 80,087,280	$ 80,072,155
Revenue Bonds					
Lease-Purchase Debt...	$ 8,051,007	$ 9,887,600	$ 9,426,325	$ 11,330,355	$ 11,822,140
Propsosition 1A Receivables Program………….	N/A	$ 1,895,000	$ 1,895,000	$ 1,895,000	$ 0
Total Revenue Bonds………...............................	$ 8,051,007	$ 11,782,600	$ 11,321,325	$ 13,225,355	$ 11,822,140
Total Outstanding General Obligation and Revenue Bonds...	$ 76,967,481	$ 89,744,564	$ 90,608,365	$ 93,312,635	$ 91,894,295
Bond Sales During Fiscal Year					
Non-Self Liquidating General Obligation Bonds....	$ 13,934,985	$ 12,446,005	$ 4,525,000	$ 7,817,390	$ 7,417,170
Self Liquidating General Obligation Bonds............	$ 0	$ 118,710	$ 0	$ 0	$ 0
Proposition 1A Receivables Revenue Bonds…….	N/A	$ 1,895,000	$ 0	$ 0	$ 0
Self Liquidating Special Fund Revenue Bonds.......	$ 0	$ 3,435,615	$ 0	$ 438,635	$ 0
Lease-Purchase Debt...	$ 641,975	$ 2,269,235	$ 0	$ 2,627,115	$ 1,678,130
Debt Service (b)					
Non-Self Liquidating General Obligation Bonds....	$ 4,021,605	$ 5,035,363	$ 5,704,729	$ 5,782,240	$ 5,424,867
Lease-Purchase Debt...	$ 825,788	$ 881,994	$ 973,824	$ 980,862	$ 1,209,353
General Fund Receipts (c)......................................	$ 87,774,952	$ 88,654,941	$ 95,536,379	$ 87,769,787	$ 103,424,674
Non-Self Liquidating General Obligation Bonds Debt Service as a Percentage of General Fund Receipts..	4.58%	5.68%	5.97%	6.59%	5.25%
Lease-Purchase Debt Service as a Percentage of General Fund Receipts.................	0.94%	0.99%	1.02%	1.12%	1.17%
Population (d)..	36,856,222	37,077,204	37,309,382	37,570,366	37,832,036
Non-Self Liquidating General Obligation Bonds Outstanding per Capita..	$ 1,601.84	$ 1,854.68	$ 1,910.61	$ 1,944.64	$ 1,968.07
Lease-Purchase Debt Outstanding per Capita..........	$ 218.44	$ 266.68	$ 252.65	$ 301.58	$ 312.49
Personal Income (e)...	$ 1,610,698,000	$ 1,516,677,000	$ 1,564,209,000	$ 1,645,138,000	$ 1,720,052,000
Non-Self Liquidating General Obligation Bonds Outstanding as Percentage of Personal Income.....	3.67%	4.53%	4.56%	4.44%	4.33%
Lease-Purchase Debt Outstanding as Percentage of Personal Income.............................	0.50%	0.65%	0.60%	0.69%	0.69%

(a) Principal outstanding as of July 1 of the next fiscal year. Includes the initial value of capital appreciation bonds rather than the accreted value.

(b) Calculated on a cash basis. The amounts do not reflect any interest subsidy under the Build America Bonds program. Subsidy not pledged to the repayment of debt service. Debt service costs of bonds issued in any fiscal year largely appear in subsequent fiscal years.

(c) Calculated on a cash basis. General Fund Receipts includes both revenues and nonrevenues, such as borrowings, the proceeds of which are deposited in the General Fund (e.g. tobacco securitization bonds and economic recovery bonds).

(d) As of July 1, the beginning of the fiscal year.

(e) Revised estimates as of June 28, 2013.

SOURCES: Population: State of California, Department of Finance.
Personal Income: United States, Department of Commerce, Bureau of Economic Analysis
Outstanding Debt, Bonds Sales During Fiscal Year and Debt Service: State of California, Office of the Treasurer.
General Fund Receipts: State of California, Office of the State Controller.

AUTHORIZED AND OUTSTANDING GENERAL OBLIGATION BONDS
As of September 1, 2013
(Thousands)

	Voter Authorization Date	Authorization Amount $	Long Term Bonds Outstanding $	Commercial Paper Outstanding (a) $	Unissued $
GENERAL FUND BONDS (Non-Self Liquidating)					
+ 1988 School Facilities Bond Act	11/08/88	797,745	45,590	0	0
+ 1990 School Facilities Bond Act	06/05/90	797,875	111,955	0	0
+ 1992 School Facilities Bond Act	11/03/92	898,211	306,295	0	0
California Clean Water, Clean Air, Safe Neighborhood Parks, and Coastal Protection Act of 2002	03/05/02	2,600,000	2,215,405	0	259,240
+ California Library Construction and Renovation Bond Act of 1988	11/08/88	72,405	14,795	0	0
*+ California Park and Recreational Facilities Act of 1984	06/05/84	368,900	14,550	0	0
* California Parklands Act of 1980	11/04/80	285,000	3,220	0	0
California Reading and Literacy Improvement and Public Library Construction and Renovation Bond Act of 2000	03/07/00	350,000	279,470	0	5,040
*+ California Safe Drinking Water Bond Law of 1976	06/08/76	172,500	3,395	0	0
* California Safe Drinking Water Bond Law of 1984	11/06/84	75,000	2,205	0	0
* California Safe Drinking Water Bond Law of 1986	11/04/86	100,000	26,080	0	0
California Safe Drinking Water Bond Law of 1988	11/08/88	75,000	30,745	0	0
*+ California Wildlife, Coastal, and Park Land Conservation Act	06/07/88	768,670	133,315	0	0
Children's Hospital Bond Act of 2004	11/02/04	750,000	664,410	0	47,445
Children's Hospital Bond Act of 2008	11/04/08	980,000	528,865	10,500	438,740
Class Size Reduction Kindergarten-University Public Education Facilities Bond Act of 1998 (Hi-Ed)	11/03/98	2,500,000	1,844,255	0	0
Class Size Reduction Kindergarten-University Public Education Facilities Bond Act of 1998 (K-12)	11/03/98	6,700,000	4,355,160	0	11,400
Clean Air and Transportation Improvement Bond Act of 1990	06/05/90	1,990,000	875,145	0	17,570
* Clean Water Bond Law of 1984	11/06/84	325,000	12,290	0	0
* Clean Water and Water Conservation Bond Law of 1978	06/06/78	375,000	5,235	0	0
Clean Water and Water Reclamation Bond Law of 1988	11/08/88	65,000	23,185	0	0
* Community Parklands Act of 1986	06/03/86	100,000	3,475	0	0
* County Correctional Facility Capital Expenditure Bond Act of 1986	06/03/86	495,000	19,780	0	0
County Correctional Facility Capital Expenditure and Youth Facility Bond Act of 1988	11/08/88	500,000	85,315	0	0
Disaster Preparedness and Flood Prevention Bond Act of 2006	11/07/06	4,090,000	2,244,880	0	1,818,652

AUTHORIZED AND OUTSTANDING GENERAL OBLIGATION BONDS
As of September 1, 2013
(Thousands)

	Voter Authorization Date	Authorization Amount $	Long Term Bonds Outstanding $	Commercial Paper Outstanding (a) $	Unissued $
GENERAL FUND BONDS (Non-Self Liquidating)					
Earthquake Safety and Public Buildings Rehabilitation Bond Act of 1990	06/05/90	300,000	98,295	0	9,765
* Fish and Wildlife Habitat Enhancement Act of 1984	06/05/84	85,000	5,655	0	0
Higher Education Facilities Bond Act of 1988	11/08/88	600,000	27,970	0	0
Higher Education Facilities Bond Act of June 1990	06/05/90	450,000	55,710	0	540
Higher Education Facilities Bond Act of June 1992	06/02/92	900,000	364,640	0	105
Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006	11/07/06	19,925,000	10,889,155	333,135	8,510,455
Housing and Emergency Shelter Trust Fund Act of 2002	11/05/02	2,100,000	1,375,650	0	132,535
Housing and Emergency Shelter Trust Fund Act of 2006	11/07/06	2,850,000	1,543,140	0	1,258,990
Housing and Homeless Bond Act of 1990	06/05/90	150,000	1,760	0	0
Kindergarten-University Public Education Facilities Bond Act of 2002 (Hi-Ed)	11/05/02	1,650,000	1,460,635	0	0
Kindergarten-University Public Education Facilities Bond Act of 2002 (K-12)	11/05/02	11,400,000	9,639,760	0	61,840
Kindergarten-University Public Education Facilities Bond Act of 2004 (Hi-Ed)	03/02/04	2,300,000	2,092,480	0	64,779
Kindergarten-University Public Education Facilities Bond Act of 2004 (K-12)	03/02/04	10,000,000	8,985,595	7,695	253,635
Kindergarten-University Public Education Facilities Bond Act of 2006 (Hi-Ed)	11/07/06	3,087,000	2,812,305	3,255	236,250
Kindergarten-University Public Education Facilities Bond Act of 2006 (K-12)	11/07/06	7,329,000	6,096,220	0	1,200,730
* Lake Tahoe Acquisitions Bond Act	08/02/82	85,000	350	0	0
* New Prison Construction Bond Act of 1986	11/04/86	500,000	5,870	0	0
New Prison Construction Bond Act of 1988	11/08/88	817,000	21,550	0	2,165
New Prison Construction Bond Act of 1990	06/05/90	450,000	28,535	0	605
Passenger Rail and Clean Air Bond Act of 1990	06/05/90	1,000,000	72,355	0	0
Public Education Facilities Bond Act of 1996 (Higher Education)	03/26/96	975,000	547,525	2,700	12,020
+ Public Education Facilities Bond Act of 1996 (K-12)	03/26/96	2,012,035	1,018,505	0	0
Safe Drinking Water, Clean Water, Watershed Protection, and Flood Protection Act	03/07/00	1,970,000	1,498,740	0	129,346
Safe Drinking Water, Water Quality and Supply, Flood Control, River and Coastal Protection Bond Act of 2006	11/07/06	5,388,000	2,398,550	0	2,957,710
Safe Neighborhood Parks, Clean Water, Clean Air, and Coastal Protection Bond Act of 2000	03/07/00	2,100,000	1,581,230	0	85,815
Safe, Clean, Reliable Water Supply Act	11/05/96	995,000	648,305	0	89,070
Safe, Reliable High-Speed Passenger Train Bond Act for the 21st Century	11/04/08	9,950,000	703,530	0	9,244,480
* School Building and Earthquake Bond Act of 1974	11/05/74	40,000	17,305	0	0

AUTHORIZED AND OUTSTANDING GENERAL OBLIGATION BONDS
As of September 1, 2013
(Thousands)

	Voter Authorization Date	Authorization Amount $	Long Term Bonds Outstanding $	Commercial Paper Outstanding (a) $	Unissued $
GENERAL FUND BONDS (Non-Self Liquidating)					
School Facilities Bond Act of 1990	11/06/90	800,000	178,760	0	0
School Facilities Bond Act of 1992	06/02/92	1,900,000	651,445	0	10,280
Seismic Retrofit Bond Act of 1996	03/26/96	2,000,000	1,267,415	0	0
* State, Urban, and Coastal Park Bond Act of 1976	11/02/76	280,000	4,505	0	0
Stem Cell Research and Cures Bond Act of 2004	11/02/04	3,000,000	1,197,440	193,730	1,602,475
Veterans Homes Bond Act of 2000	03/07/00	50,000	35,205	0	975
Voting Modernization Bond Act of 2002	03/05/02	200,000	52,035	0	64,495
Water Conservation Bond Law of 1988	11/08/88	60,000	25,190	0	5,235
* Water Conservation and Water Quality Bond Law of 1986	06/03/86	150,000	37,090	0	13,730
Water Security, Clean Drinking Water, Coastal and Beach Protection Act of 2002	11/05/02	3,440,000	2,674,380	36,615	540,164
Total General Fund Bonds		**127,519,341**	**73,963,800**	**587,630**	**29,086,276**
ENTERPRISE FUND BONDS (Self Liquidating)					
* California Water Resources Development Bond Act	11/08/60	1,750,000	286,870	0	167,600
Veterans Bond Act of 1986	06/03/86	850,000	68,175	0	0
Veterans Bond Act of 1988	06/07/88	510,000	55,555	0	0
Veterans Bond Act of 1990	11/06/90	400,000	61,190	0	0
Veterans Bond Act of 1996	11/05/96	400,000	168,240	0	0
Veterans Bond Act of 2000	11/07/00	500,000	187,795	0	238,610
Veterans Bond Act of 2008	11/04/08	900,000	0	0	900,000
Total Enterprise Fund Bonds		**5,310,000**	**827,825**	**0**	**1,306,210**

AUTHORIZED AND OUTSTANDING GENERAL OBLIGATION BONDS
As of September 1, 2013
(Thousands)

	Voter Authorization Date	Authorization Amount $	Long Term Bonds Outstanding $	Commercial Paper Outstanding (a) $	Unissued $
SPECIAL REVENUE FUND BONDS (Self Liquidating)					
* Economic Recovery Bond Act	04/10/04	15,000,000	4,581,745	0	0
Total Special Revenue Fund Bonds		**15,000,000**	**4,581,745**	**0**	**0**
TOTAL GENERAL OBLIGATION BONDS		**147,829,341**	**79,373,370**	**587,630**	**30,392,486**

(a) A total of not more than $1.649 billion of commercial paper principal plus accrued interest may be owing at one time. Bond acts marked with an asterisk (*) are not legally permitted to utilize commercial paper.

+ SB 1018 (06/27/2012) reduced the voter authorized amount

SOURCE: State of California, Office of the Treasurer.

GENERAL OBLIGATION AND REVENUE BONDS
SUMMARY OF DEBT SERVICE REQUIREMENTS
As of September 1, 2013

	Total Debt		
	Interest	**Principal (a)**	**Total**
GENERAL OBLIGATION BONDS			
GENERAL FUND NON-SELF LIQUIDATING (b)			
Fixed Rate	$ 62,697,159,872.53	$ 71,292,010,000.00	$ 133,989,169,872.53
Variable Rate (c)	26,578,022.37	2,671,790,000.00	2,698,368,022.37
ENTERPRISE FUND SELF LIQUIDATING			
Fixed Rate	409,899,564.12	827,825,000.00	1,237,724,564.12
SPECIAL REVENUE FUND SELF LIQUIDATING (d)			
Fixed Rate	1,024,353,217.50	3,971,375,000.00	4,995,728,217.50
Variable Rate (e)	131,084,989.39	610,370,000.00	741,454,989.39
REVENUE BONDS			
GENERAL FUND LEASE-REVENUE			
Lease-Revenue	6,634,143,163.73	11,775,410,000.00	18,409,553,163.73
General Fund and Lease-Revenue Total (f)	**$ 70,923,218,829.64**	**$ 91,148,780,000.00**	**$ 162,071,998,829.64**

(a) Includes scheduled mandatory sinking fund payments.
(b) Does not include outstanding commercial paper.
(c) The estimate of future interest payments is based on rates in effect as of September 1, 2013. The interest rates for the daily and weekly rate bonds range from 0.03 - 1.21%.
(d) Economic Recovery Bonds.
(e) The estimate of future interest payments is based on the rate in effect as of September 1, 2013, which is 0.03%. $500,000,000 of the Series 2009B Economic Recovery Bonds bear interest at fixed rates ranging from 3.50 - 5.00% until reset date, and are assumed to bear interest at the rate of 4.00% from each reset date to maturity.
(f) Estimated interest included.

SOURCE: State of California, Office of the Treasurer.

SCHEDULE OF DEBT SERVICE REQUIREMENTS
FOR GENERAL FUND NON-SELF LIQUIDATING BONDS
Fixed Rate
As of September 1, 2013

Fiscal Year Ending June 30	Current Debt			
	Interest (a)	Principal (b)	Total (d)	
2014	$ 3,137,085,783.53	$ 1,907,895,000.00	$ 5,044,980,783.53	(c)
2015	3,782,803,386.35	2,610,430,000.00	6,393,233,386.35	
2016	3,663,687,826.35	2,722,530,000.00	6,386,217,826.35	
2017	3,544,972,205.62	2,280,985,000.00	5,825,957,205.62	
2018	3,436,300,878.70	2,205,085,000.00	5,641,385,878.70	
2019	3,325,520,890.62	2,306,460,000.00	5,631,980,890.62	
2020	3,187,952,345.14	2,596,520,000.00	5,784,472,345.14	
2021	3,069,926,390.23	2,178,330,000.00	5,248,256,390.23	
2022	2,952,589,900.96	2,483,840,000.00	5,436,429,900.96	
2023	2,834,515,348.25	2,020,630,000.00	4,855,145,348.25	
2024	2,738,259,285.29	1,775,165,000.00	4,513,424,285.29	
2025	2,647,277,437.14	1,944,985,000.00	4,592,262,437.14	
2026	2,544,724,211.72	2,074,610,000.00	4,619,334,211.72	
2027	2,433,093,607.97	2,212,235,000.00	4,645,328,607.97	
2028	2,325,400,487.11	2,256,940,000.00	4,582,340,487.11	
2029	2,214,965,480.10	2,300,345,000.00	4,515,310,480.10	
2030	2,098,493,245.56	2,492,880,000.00	4,591,373,245.56	
2031	1,962,355,244.36	2,605,810,000.00	4,568,165,244.36	
2032	1,838,059,805.65	2,408,155,000.00	4,246,214,805.65	
2033	1,708,339,526.26	2,484,675,000.00	4,193,014,526.26	
2034	1,580,261,272.25	3,424,890,000.00	5,005,151,272.25	
2035	1,343,868,231.10	3,170,320,000.00	4,514,188,231.10	
2036	1,153,580,082.01	2,782,530,000.00	3,936,110,082.01	
2037	979,565,355.62	3,122,660,000.00	4,102,225,355.62	
2038	795,513,390.69	3,068,625,000.00	3,864,138,390.69	
2039	647,539,260.20	3,415,270,000.00	4,062,809,260.20	
2040	370,915,493.75	1,603,885,000.00	1,974,800,493.75	
2041	213,203,625.00	2,190,000,000.00	2,403,203,625.00	
2042	110,923,625.00	1,319,000,000.00	1,429,923,625.00	
2043	55,466,250.00	1,326,325,000.00	1,381,791,250.00	
Total	**$ 62,697,159,872.53**	**$ 71,292,010,000.00**	**$ 133,989,169,872.53**	

(a) The amounts do not reflect any interest subsidy under the Build America Bonds program. Subsidy not pledged to the repayment of debt service.
(b) Includes scheduled mandatory sinking fund payments.
(c) Total represents the remaining debt service requirements from October 1, 2013 through June 30, 2014.
(d) Does not include outstanding commercial paper.

SOURCE: State of California, Office of the Treasurer.

SCHEDULE OF DEBT SERVICE REQUIREMENTS
FOR GENERAL FUND NON-SELF LIQUIDATING BONDS
Variable Rate
As of September 1, 2013

Fiscal Year Ending June 30	Current Debt Interest (a)(b)	Principal	Total (d)	
2014	$ 2,169,683.64	$ -	$ 2,169,683.64	(c)
2015	2,903,547.22	-	2,903,547.22	
2016	2,913,196.43	24,400,000.00	27,313,196.43	
2017	2,837,596.78	311,845,000.00	314,682,596.78	
2018	2,425,173.61	418,745,000.00	421,170,173.61	
2019	1,863,250.75	188,250,000.00	190,113,250.75	
2020	1,563,039.00	171,150,000.00	172,713,039.00	
2021	1,306,911.44	58,600,000.00	59,906,911.44	
2022	1,252,734.41	43,600,000.00	44,852,734.41	
2023	1,199,822.90	65,600,000.00	66,799,822.90	
2024	1,140,519.14	178,300,000.00	179,440,519.14	
2025	1,020,632.75	121,300,000.00	122,320,632.75	
2026	931,584.47	208,400,000.00	209,331,584.47	
2027	808,981.40	170,900,000.00	171,708,981.40	
2028	681,347.67	179,500,000.00	180,181,347.67	
2029	545,448.51	215,600,000.00	216,145,448.51	
2030	402,476.58	73,800,000.00	74,202,476.58	
2031	303,383.12	76,700,000.00	77,003,383.12	
2032	204,352.68	79,800,000.00	80,004,352.68	
2033	100,084.23	82,700,000.00	82,800,084.23	
2034	1,178.85	1,600,000.00	1,601,178.85	
2035	520.00	-	520.00	
2036	522.25	-	522.25	
2037	517.75	-	517.75	
2038	520.00	-	520.00	
2039	520.00	-	520.00	
2040	476.79	1,000,000.00	1,000,476.79	
Total	**$ 26,578,022.37**	**$ 2,671,790,000.00**	**$ 2,698,368,022.37**	

(a) The estimate of future interest payments is based on rates in effect as of September 1, 2013. The interest rates for the daily and weekly rate bonds range from 0.03 - 1.21%.

(b) The amounts do not reflect any interest subsidy under the Build America Bonds program. Subsidy not pledged to the repayment of debt service.

(c) Total represents the remaining estimated debt service requirements from October 1, 2013 through June 30, 2014.

(d) Does not include outstanding commercial paper.

SOURCE: State of California, Office of the Treasurer.

SCHEDULE OF DEBT SERVICE REQUIREMENTS FOR SPECIAL REVENUE FUND SELF LIQUIDATING BONDS
Fixed Rate
As of September 1, 2013

Fiscal Year Ending June 30	Current Debt Interest	Current Debt Principal (a)	Current Debt Total	
2014	$ 99,230,146.25	$ -	$ 99,230,146.25	(b)
2015	184,847,398.75	525,615,000.00	710,462,398.75	
2016	157,474,605.00	556,690,000.00	714,164,605.00	
2017	140,025,400.00	165,160,000.00	305,185,400.00	
2018	132,149,376.25	174,290,000.00	306,439,376.25	
2019	113,267,497.50	592,955,000.00	706,222,497.50	
2020	86,361,762.50	496,145,000.00	582,506,762.50	
2021	61,465,062.50	507,445,000.00	568,910,062.50	
2022	36,925,093.75	451,575,000.00	488,500,093.75	
2023	12,571,250.00	500,000,000.00	512,571,250.00	
2024	35,625.00	1,500,000.00	1,535,625.00	
Total	**$ 1,024,353,217.50**	**$ 3,971,375,000.00**	**$ 4,995,728,217.50**	

(a) Includes scheduled mandatory sinking fund payments.
(b) Total represents the remaining debt service requirements from October 1, 2013 through June 30, 2014.

SOURCE: State of California, Office of the Treasurer.

SCHEDULE OF DEBT SERVICE REQUIREMENTS FOR SPECIAL REVENUE FUND SELF LIQUIDATING BONDS
Variable Rate
As of September 1, 2013

Fiscal Year Ending June 30	Current Debt			
	Interest (a)	Principal (b)	Total	
2014	$ 11,949,099.50	$ -	$ 11,949,099.50	(c)
2015	21,957,445.28	-	21,957,445.28	
2016	20,033,164.04	-	20,033,164.04	
2017	20,033,057.96	-	20,033,057.96	
2018	20,033,111.00	25,000,000.00	45,033,111.00	
2019	18,533,292.43	115,000,000.00	133,533,292.43	
2020	12,642,982.61	189,500,000.00	202,142,982.61	
2021	4,853,057.96	128,755,000.00	133,608,057.96	
2022	958,422.81	66,305,000.00	67,263,422.81	
2023	75,985.32	70,035,000.00	70,110,985.32	
2024	15,370.48	15,775,000.00	15,790,370.48	
Total	**$ 131,084,989.39**	**$ 610,370,000.00**	**$ 741,454,989.39**	

(a) The estimate of future interest payments is based on rate in effect as of September 1, 2013, which is 0.03%. $500,000,000 of the Series 2009B Economic Recovery Bonds bear interest at fixed rates ranging from 3.50 - 5.00% until reset date, and are assumed to bear interest at the rate of 4.00% from each reset date to maturity.
(b) Includes scheduled mandatory sinking fund payments.
(c) Total represents the remaining estimated debt service requirements from October 1, 2013 through June 30, 2014.

SOURCE: State of California, Office of the Treasurer.

SCHEDULE OF DEBT SERVICE REQUIREMENTS FOR ENTERPRISE FUND SELF LIQUIDATING BONDS
Fixed Rate
As of September 1, 2013

Fiscal Year Ending June 30	Current Debt			
	Interest	Principal (a)	Total	
2014	$ 33,672,515.00	$ 45,135,000.00	$ 78,807,515.00	(b)
2015	33,635,200.58	77,565,000.00	111,200,200.58	
2016	30,621,644.13	75,620,000.00	106,241,644.13	
2017	27,920,960.00	61,895,000.00	89,815,960.00	
2018	25,233,962.15	60,655,000.00	85,888,962.15	
2019	22,623,172.41	54,065,000.00	76,688,172.41	
2020	20,693,161.25	28,865,000.00	49,558,161.25	
2021	19,330,206.25	20,320,000.00	39,650,206.25	
2022	18,380,846.28	14,380,000.00	32,760,846.28	
2023	17,738,918.75	12,160,000.00	29,898,918.75	
2024	17,199,931.25	12,075,000.00	30,274,931.25	
2025	16,660,431.05	12,135,000.00	28,795,431.05	
2026	16,385,663.55	200,000.00	16,585,663.55	
2027	16,005,713.65	16,695,000.00	32,700,713.65	
2028	15,225,222.80	17,835,000.00	33,060,222.80	
2029	14,009,462.80	34,275,000.00	48,284,462.80	
2030	12,252,673.69	40,325,000.00	52,577,673.69	
2031	10,301,552.28	42,490,000.00	52,791,552.28	
2032	8,707,392.50	25,755,000.00	34,462,392.50	
2033	7,508,072.50	26,690,000.00	34,198,072.50	
2034	6,359,375.00	22,705,000.00	29,064,375.00	
2035	5,269,037.50	23,310,000.00	28,579,037.50	
2036	4,403,300.00	13,945,000.00	18,348,300.00	
2037	3,548,333.75	23,025,000.00	26,573,333.75	
2038	2,662,880.00	15,300,000.00	17,962,880.00	
2039	1,950,055.00	16,025,000.00	17,975,055.00	
2040	1,195,310.00	16,790,000.00	17,985,310.00	
2041	404,570.00	17,590,000.00	17,994,570.00	
Total	**$ 409,899,564.12**	**$ 827,825,000.00**	**$ 1,238,724,564.12**	

(a) Includes scheduled mandatory sinking fund payments.
(b) Total represents the remaining debt service requirements from October 1, 2013 through June 30, 2014.

SOURCE: State of California, Office of the Treasurer.

STATE PUBLIC WORKS BOARD AND
OTHER LEASE-REVENUE FINANCING
OUTSTANDING ISSUES
As of September 1, 2013

Name of Issue		Outstanding
GENERAL FUND SUPPORTED ISSUES:		
State Public Works Board		
California Community Colleges	$	354,745,000
California Department of Corrections and Rehabilitations		3,166,095,000
The Regents of the University of California (a)		2,399,910,000
Trustees of the California State University		984,935,000
Various State Facilities (b)		4,466,905,000
Total State Public Works Board Issues	**$**	**11,372,590,000**
Total Other State Facilities Lease-Revenue Issues (c)	$	402,820,000
Total General Fund Supported Issues	**$**	**11,775,410,000**
SPECIAL FUND SUPPORTED ISSUES:		
East Bay State Building Authority*	$	28,620,000
San Bernardino Joint Powers Financing Authority		31,135,000
San Francisco State Building Authority (d)		4,800,000
Total Special Fund Supported Issues	**$**	**64,555,000**
TOTAL	**$**	**11,839,965,000**

* Includes the initial value of capital appreciation bonds rather than the accreted value.
(a) The Regents' obligations to the State Public Works Board are payable from lawfully available funds of The Regents which are held in The Regents' treasury funds and are separate from the State General Fund. A portion of The Regents' annual budget is derived from General Fund appropriations.
(b) This includes projects that are supported by multiple funding sources in addition to the General Fund.
(c) Includes $97,410,000 Sacramento City Financing Authority Lease-Revenue Refunding Bonds State of California - Cal/EPA Building, 2013 Series A, which are supported by lease rentals from the California Environmental Protection Agency; these rental payments are subject to annual appropriation by the State Legislature.
(d) The sole tenant is the California Public Utilities Commission.

SOURCE: State of California, Office of the Treasurer.

SCHEDULE OF DEBT SERVICE REQUIREMENTS
FOR LEASE-REVENUE DEBT
Fixed Rate
As of September 1, 2013

Fiscal Year Ending June 30	Current Debt Interest (a)	Principal (b)	Total	
2014	$ 537,895,728.51	$ 511,020,000.00	$ 1,048,915,728.51	(c)
2015	576,027,182.88	595,680,000.00	1,171,707,182.88	
2016	547,300,015.03	614,020,000.00	1,161,320,015.03	
2017	517,295,140.81	648,090,000.00	1,165,385,140.81	
2018	485,810,483.98	673,345,000.00	1,159,155,483.98	
2019	453,144,625.73	647,955,000.00	1,101,099,625.73	
2020	420,962,345.47	634,280,000.00	1,055,242,345.47	
2021	390,463,782.20	588,640,000.00	979,103,782.20	
2022	360,878,167.07	577,315,000.00	938,193,167.07	
2023	333,329,209.99	531,065,000.00	864,394,209.99	
2024	307,046,011.94	467,870,000.00	774,916,011.94	
2025	282,850,206.22	492,250,000.00	775,100,206.22	
2026	257,516,632.36	499,630,000.00	757,146,632.36	
2027	230,904,748.92	526,230,000.00	757,134,748.92	
2028	203,100,891.38	538,310,000.00	741,410,891.38	
2029	175,422,696.00	498,475,000.00	673,897,696.00	
2030	148,624,296.43	492,165,000.00	640,789,296.43	
2031	122,119,328.23	456,665,000.00	578,784,328.23	
2032	96,466,987.79	450,985,000.00	547,451,987.79	
2033	73,101,409.53	340,575,000.00	413,676,409.53	
2034	52,388,512.28	327,895,000.00	380,283,512.28	
2035	31,693,017.23	299,675,000.00	331,368,017.23	
2036	16,952,781.25	138,935,000.00	155,887,781.25	
2037	10,048,412.50	145,830,000.00	155,878,412.50	
2038	2,800,550.00	78,510,000.00	81,310,550.00	
Total	**$ 6,634,143,163.73**	**$ 11,775,410,000.00**	**$ 18,409,553,163.73**	

(a) The amounts do not reflect any interest subsidy under the Build America Bonds program. Subsidy not pledged to the repayment of debt service.
(b) Includes scheduled mandatory sinking fund payments.
(c) Total represents the remaining debt service requirements from October 1, 2013 through June 30, 2014.

SOURCE: State of California, Office of the Treasurer.

STATE AGENCY REVENUE BONDS AND CONDUIT FINANCING
As of June 30, 2013

Issuing Agency	Outstanding[a][b]
State Revenue Bond Financing Programs:	
California Alternative Energy and Advanced Transportation Financing Authority	$ 14,666,667
California Department of Transportation - GARVEE	201,805,000
California Earthquake Authority	126,000,000
California Health Facilities Financing Authority	69,955,000
California Housing Finance Agency	4,581,007,748
California Infrastructure and Economic Development Bank	1,113,775,000
California State University	3,604,708,000
Department of Water Resources - Central Valley Project	2,408,975,000
Department of Water Resources - Power Supply Program	6,553,805,000
The Regents of the University of California	11,494,280,000
Veterans Revenue Debenture	420,325,000
Conduit Financing:	
California Alternative Energy and Advanced Transportation Financing Authority	58,102,195
California Educational Facilities Authority	4,535,481,581
California Health Facilities Financing Authority	12,389,089,550
California Housing Finance Agency	318,227,157
California Infrastructure and Economic Development Bank	3,527,153,126
California Pollution Control Financing Authority	4,042,652,052
California School Financing Authority	124,836,504
California Student Loan Authority	5,100,000
TOTAL	**$ 55,589,944,580**

(a) Totals for California Department of Transportation, California State University, Department of Water Resources and Veterans Revenue Debenture were provided by the State of California, Office of the Treasurer. All other totals were provided by the listed issuing agency.

(b) Does not include the Tobacco Settlement Revenue Bonds issued by Golden State Tobacco Securitization Corporation.

STATEMENT of GENERAL FUND CASH RECEIPTS and DISBURSEMENTS

June 2013

JOHN CHIANG
California State Controller

JOHN CHIANG
California State Controller

July 10, 2013

Users of the Statement of General Fund Cash Receipts and Disbursements:

Enclosed is the Statement of General Fund Cash Receipts and Disbursements for the period July 1, 2012, through June 30, 2013. This statement reflects the State of California's General Fund cash position and compares actual receipts and disbursements for the 2012-13 Fiscal Year to cash flow estimates prepared by the Department of Finance for the 2012 Budget Act. The statement is prepared in compliance with Provision 7 of Budget Act item 0840-001-0001, using records compiled by the State Controller. Prior year actual amounts are also displayed for comparative purposes.

Attachment A compares actual receipts and disbursements for the 2012-13 fiscal year to cash flow estimates published in the 2013-14 May Revision Budget. These cash flow estimates are predicated on projections and assumptions made by the Department of Finance in preparation of the May Revision Budget.

Attachment B compares actual receipts and disbursements for the 2012-13 fiscal year to cash flow estimates prepared by the Department of Finance based upon the 2012 Budget Act.

These statements are also available on the Internet at the State Controller's website at www.sco.ca.gov under the category Monthly Financial Reports.

Any questions concerning this report may be directed to George Lolas, Division Chief of Accounting and Reporting, at (916) 322-7407.

Sincerely,
Original signed by:

JOHN CHIANG
California State Controller

STATEMENT OF GENERAL FUND CASH RECEIPTS AND DISBURSEMENTS
A Comparison of Actual to 2013-14 May Revision Estimates
(Amounts in thousands)

	July 1 through June 30				
	2013				2012
	Actual	Estimate (a)	Actual Over or (Under) Estimate Amount	%	Actual
GENERAL FUND BEGINNING CASH BALANCE	$ -	$ -	$ -	-	$ -
Add Receipts:					
Revenues	100,078,372	98,079,845	1,998,527	2.0	83,473,884
Nonrevenues	3,346,302	3,207,868	138,434	4.3	4,295,903
Total Receipts	103,424,674	101,287,713	2,136,961	2.1	87,769,787
Less Disbursements:					
State Operations	26,130,710	23,781,752	2,348,958	9.9	24,431,344
Local Assistance	68,095,108	71,066,384	(2,971,276)	(4.2)	64,579,659
Capital Outlay	117,388	164,030	(46,642)	(28.4)	190,873
Nongovernmental	1,923,042	947,692	975,350	-	(3,262)
Total Disbursements	96,266,248	95,959,858	306,390	0.3	89,198,614
Receipts Over / (Under) Disbursements	7,158,426	5,327,855	1,830,571	34.4	(1,428,827)
Net Increase / (Decrease) in Temporary Loans	(7,158,426)	(5,327,855)	(1,830,571)	-	1,428,827
GENERAL FUND ENDING CASH BALANCE	-	-	-		-
Special Fund for Economic Uncertainties	-	-	-	-	-
TOTAL CASH	$ -	$ -	$ -		$ -
BORROWABLE RESOURCES					
Available Borrowable Resources	$ 21,215,251	$ 19,077,200	$ 2,138,051	11.2	$ 20,824,299
Outstanding Loans (b)	2,434,865	4,265,434	(1,830,569)	(42.9)	9,593,291
Unused Borrowable Resources	$ 18,780,386	$ 14,811,766	$ 3,968,620	26.8	$ 11,231,008

General Note:
This report is based upon funded cash. Funded cash is cash reported to and recorded in the records of the State Controller's Office. Amounts reported as funded cash may differ from amounts in other reports to the extent there are timing differences in the recording of in-transit items.

Footnotes:
(a) A Statement of Estimated Cash Flow for the 2012-13 fiscal year was prepared by the Department of Finance for the 2013-14 May Revision. Any projections or estimates are set forth as such and not as representation of facts.
(b) Outstanding loan balance of $2.4 billion is comprised of $2.4 billion of internal borrowing. Current balance is comprised of $9.6 billion carried forward from June 30, 2012, plus current year Net Increase/(Decrease) in Temporary Loans of ($7.2) billion. $2.5 billion of RANs were repaid in May 2013 and $7.5 billion of RANS were repaid in June 2013 as scheduled.
(c) Negative amounts are the result of repayments received that are greater than disbursements made.
(d) Debt Service amounts are net of offsets such as federal subsidies and reimbursements from other sources. To the extent that these offsets do not occur when anticipated, there can be variances between actuals and estimates on a month-to-month basis.

Continued on page A2.

SCHEDULE OF CASH RECEIPTS
(Amounts in thousands)

	Month of June		July 1 through June 30				
			2013				2012
	2013	2012	Actual	Estimate (a)	Actual Over or (Under) Estimate Amount	%	Actual
REVENUES							
Alcoholic Beverage Excise Tax	$ 29,418	$ 22,860	$ 360,803	$ 330,849	$ 29,954	9.1	$ 338,178
Corporation Tax	2,112,500	1,664,304	7,620,406	7,224,338	396,068	5.5	8,051,423
Cigarette Tax	13,163	8,290	91,172	90,358	814	0.9	100,906
Estate, Inheritance, and Gift Tax	371	478	4,303	3,693	610	16.5	3,991
Insurance Companies Tax	326,110	348,161	2,244,313	2,157,876	86,437	4.0	2,187,463
Personal Income Tax	8,029,598	6,914,343	67,314,600	66,073,435	1,241,165	1.9	50,699,002
Retail Sales and Use Taxes	2,050,138	1,781,338	20,073,343	19,985,405	87,938	0.4	19,438,408
Vehicle License Fees	261	1,104	7,493	6,763	730	10.8	83,406
Pooled Money Investment Interest	4,178	4,691	23,426	23,296	130	0.6	25,605
Not Otherwise Classified	558,666	635,030	2,338,513	2,183,832	154,681	-	2,545,502
Total Revenues	**13,124,403**	**11,380,599**	**100,078,372**	**98,079,845**	**1,998,527**	**2.0**	**83,473,884**
NONREVENUES							
Transfers from Special Fund for Economic Uncertainties	-	-	-	-	-	-	715,854
Transfers from Other Funds	340,873	338,557	2,051,308	1,954,004	97,304	5.0	2,348,551
Miscellaneous	38,652	75,018	1,294,994	1,253,864	41,130	3.3	1,231,498
Total Nonrevenues	**379,525**	**413,575**	**3,346,302**	**3,207,868**	**138,434**	**4.3**	**4,295,903**
Total Receipts	**$ 13,503,928**	**$ 11,794,174**	**$ 103,424,674**	**$ 101,287,713**	**$ 2,136,961**	**2.1**	**$ 87,769,787**

See notes on page A1 and A2.

(e) A $1.0 billion advance was made from the General Fund to the Medi-Cal Provider Interim Payment Fund and repayment is anticipated in July 2013. Consequently, the disbursements for Local Assistance Medical Assistance program will increase in July.

(f) Redemption of $1.9 billion of Prop 1A obligations are accounted for under State Operations, General Government, while this amount was included in Department of Finance projections under Local Assistance, Other Local Assistance.

SCHEDULE OF CASH DISBURSEMENTS
(Amounts in thousands)

	Month of June		July 1 through June 30				2012
			2013				
					Actual Over or (Under) Estimate		
	2013	2012	Actual	Estimate (a)	Amount	%	Actual
STATE OPERATIONS (c)							
Legislative/Judicial/Executive	$ 73,106	$ 101,831	$ 1,000,838	$ 1,105,999	$ (105,161)	(9.5)	$ 1,253,131
State and Consumer Services	48,269	50,175	663,371	679,646	(16,275)	(2.4)	590,961
Business, Transportation and Housing	269	989	3,978	3,412	566	-	26,876
Resources	59,696	26,455	1,143,350	1,100,729	42,621	3.9	929,868
Environmental Protection Agency	3,169	3,910	34,023	41,510	(7,487)	(18.0)	35,694
Health and Human Services:							
Health Services	16,949	20,666	217,429	236,328	(18,899)	(8.0)	222,734
Mental Health	65,279	93,712	1,161,511	1,227,814	(66,303)	(5.4)	1,232,235
Other Health and Human Services	(14,830)	(12,771)	469,474	513,110	(43,636)	(8.5)	967,807
Education:							
University of California	502,167	651,602	2,386,114	2,396,751	(10,637)	(0.4)	2,277,772
State Universities and Colleges	62,144	(56)	2,244,988	2,063,549	181,439	8.8	1,999,976
Other Education	10,901	11,547	169,881	175,289	(5,408)	(3.1)	164,030
Dept. of Corrections and Rehabilitation	646,220	560,848	7,788,842	7,774,638	14,204	0.2	7,991,944
General Government	2,105,094	165,271	4,270,890	2,331,922	1,938,968 (f)	83.1	1,914,058
Public Employees Retirement System	(145,308)	(142,535)	(6,616)	(12,342)	5,726	-	(6,331)
Debt Service (d)	473,119	432,064	4,482,775	4,197,570	285,205	6.8	4,744,822
Interest on Loans	161,738	83,548	99,862	(54,173)	154,035	-	85,767
Total State Operations	**4,067,982**	**2,047,256**	**26,130,710**	**23,781,752**	**2,348,958**	**9.9**	**24,431,344**
LOCAL ASSISTANCE (c)							
Public Schools - K-12	6,880,525	570,189	36,476,720	36,531,912	(55,192)	(0.2)	29,269,540
Community Colleges	842,868	100,095	3,584,580	3,590,300	(5,720)	(0.2)	3,284,018
Debt Service-School Building Bonds	-	-	-	(379)	379	-	-
Contributions to State Teachers' Retirement System	-	-	1,359,675	1,359,675	-	-	1,316,108
Other Education	(27,177)	34,209	1,813,620	1,984,526	(170,906)	(8.6)	3,482,653
School Facilities Aid	-	-	-	379	(379)	(100.0)	-
Dept. of Corrections and Rehabilitation	3,009	1,837	223,654	217,976	5,678	2.6	234,339
Dept. of Alcohol and Drug Program	1,583	(18,487)	42,770	44,223	(1,453)	(3.3)	53,548
Dept. of Health Services:							
Medical Assistance Program	99,102	579,231	14,391,478	14,948,799	(557,321) (e)	(3.7)	15,096,282
Other Health Services	10,178	(24,746)	108,352	165,076	(56,724)	(34.4)	24,062
Dept. of Developmental Services	(21,128)	42,600	2,037,886	2,056,259	(18,373)	(0.9)	2,097,430
Dept. of Mental Health	-	148,745	10,664	10,664	-	-	357,495
Dept. of Social Services:							
SSI/SSP/IHSS	300,849	391,185	4,453,798	4,440,846	12,952	0.3	4,497,175
CalWORKs	55,369	95,818	1,348,177	1,292,888	55,289	4.3	1,744,646
Other Social Services	37,388	28,148	682,154	685,819	(3,665)	(0.5)	827,068
Tax Relief	-	-	427,285	422,719	4,566	1.1	433,008
Other Local Assistance	52,554	82,048	1,134,295	3,314,702	(2,180,407) (f)	(65.8)	1,862,287
Total Local Assistance	**8,235,120**	**2,030,872**	**68,095,108**	**71,066,384**	**(2,971,276)**	**(4.2)**	**64,579,659**

See notes on page A1 and A2.

(Continued)

SCHEDULE OF CASH DISBURSEMENTS (Continued)
(Amounts in thousands)

	Month of June		July 1 through June 30				
			2013				2012
	2013	2012	Actual	Estimate (a)	Actual Over or (Under) Estimate Amount	%	Actual
CAPITAL OUTLAY	**8,870**	**5,800**	**117,388**	**164,030**	**(46,642)**	**(28.4)**	**190,873**
NONGOVERNMENTAL (c)							
Transfer to Special Fund for Economic Uncertainties	-	-	473,243	473,243	-	-	-
Transfer to Budget Stabilization Account	-	-	-	-	-	-	-
Transfer to Other Funds	43,740	81,149	404,748	403,708	1,040	0.3	339,670
Transfer to Revolving Fund	(10,989)	(38,286)	(9,808)	5,676	(15,484)	(272.8)	(44,495)
Advance:							
MediCal Provider Interim Payment	-	-	1,000,000	-	1,000,000 (e)	-	-
State-County Property Tax Administration Program	(4,380)	(31,995)	18,682	45,637	(26,955)	(59.1)	6,459
Social Welfare Federal Fund	28,000	29,000	(63,763)	(91,763)	28,000	-	(39,483)
Local Governmental Entities	-	-	60,000	60,000	-	-	-
Tax Relief and Refund Account	-	-	-	-	-	-	-
Counties for Social Welfare	315,672	275,732	39,940	51,191	(11,251)	(22.0)	(265,413)
Total Nongovernmental	**372,043**	**315,600**	**1,923,042**	**947,692**	**975,350**	**-**	**(3,262)**
Total Disbursements	**$ 12,684,015**	**$ 4,399,528**	**$ 96,266,248**	**$ 95,959,858**	**$ 306,390**	**0.3**	**$ 89,198,614**
TEMPORARY LOANS							
Special Fund for Economic Uncertainties	$ 948,200	$ -	$ 473,243	$ 473,243	$ -	-	$ (715,854)
Budget Stabilization Account	-	-	-	-	-	-	-
Outstanding Registered Warrants Account	-	-	-	-	-	-	-
Other Internal Sources	1,486,665	(1,494,646)	(7,631,669)	(5,801,098)	(1,830,571)	-	2,144,681
Revenue Anticipation Notes	(7,500,000)	(5,900,000)	-	-	-	-	-
Net Increase / (Decrease) Loans	**(5,065,135)**	**$ (7,394,646)**	**$ (7,158,426)**	**$ (5,327,855)**	**$ (1,830,571)**	**-**	**$ 1,428,827**

See notes on page A1 and A2.

(Concluded)

COMPARATIVE STATEMENT OF REVENUES RECEIVED
All Governmental Cost Funds
(Amounts in thousands)

	July 1 through June 30			
	General Fund		Special Funds	
	2013	2012	2013	2012
MAJOR TAXES, LICENSES, AND INVESTMENT INCOME:				
Alcoholic Beverage Excise Taxes	$ 360,803	$ 338,178	$ -	$ -
Corporation Tax	7,620,406	8,051,423	-	-
Cigarette Tax	91,172	100,906	776,194	855,784
Estate, Inheritance, and Gift Tax	4,303	3,991	-	36
Insurance Companies Tax	2,244,313	2,187,463	34,389	250,547
Motor Vehicle Fuel Tax:				
Gasoline Tax	-	-	5,196,201	5,203,059
Diesel & Liquid Petroleum Gas	-	-	333,028	404,312
Jet Fuel Tax	-	-	2,406	2,536
Vehicle License Fees	7,493	83,406	1,971,800	1,967,890
Motor Vehicle Registration and Other Fees	-	-	3,920,199	3,894,213
Personal Income Tax	67,314,600	50,699,002	1,200,346	-
Retail Sales and Use Taxes	20,073,343	19,438,408	13,355,024	12,047,491
Pooled Money Investment Interest	23,426	25,605	181	314
Total Major Taxes, Licenses, and Investment Income	**97,739,859**	**80,928,382**	**26,789,768**	**24,626,182**
NOT OTHERWISE CLASSIFIED:				
Alcoholic Beverage License Fee	2,479	3,538	52,136	53,967
Electrical Energy Tax	-	-	712,069	788,020
Private Rail Car Tax	7,893	8,041	-	-
Penalties on Traffic Violations	-	-	74,526	80,652
Health Care Receipts	18,442	39,237	-	-
Revenues from State Lands	422,475	480,831	-	-
Abandoned Property	474,738	520,294	-	-
Trial Court Revenues	51,251	55,070	1,701,124	1,715,152
Horse Racing Fees	1,117	1,176	13,461	15,746
Cap and Trade	-	-	257,264	-
Miscellaneous	1,360,118	1,437,315	11,754,098	6,755,288
Not Otherwise Classified	**2,338,513**	**2,545,502**	**14,564,678**	**9,408,825**
Total Revenues, All Governmental Cost Funds	**$ 100,078,372**	**$ 83,473,884**	**$ 41,354,446**	**$ 34,035,007**

See notes on page A1 and A2.

STATEMENT OF GENERAL FUND CASH RECEIPTS AND DISBURSEMENTS
A Comparison of Actual to 2012 Budget Act
(Amounts in thousands)

	July 1 through June 30				
	2013				2012
	Actual	Estimate (a)	Actual Over or (Under) Estimate Amount	%	Actual
GENERAL FUND BEGINNING CASH BALANCE	$ -	$ -	$ -	-	$ -
Add Receipts:					
Revenues	100,078,372	96,678,993	3,399,379	3.5	83,473,884
Nonrevenues	3,346,302	2,532,746	813,556	32.1	4,295,903
Total Receipts	103,424,674	99,211,739	4,212,935	4.2	87,769,787
Less Disbursements:					
State Operations	26,130,710	24,671,958	1,458,752	5.9	24,431,344
Local Assistance	68,095,108	69,406,396	(1,311,288)	(1.9)	64,579,659
Capital Outlay	117,388	178,150	(60,762)	(34.1)	190,873
Nongovernmental	1,923,042	957,549	965,493	-	(3,262)
Total Disbursements	96,266,248	95,214,053	1,052,195	1.1	89,198,614
Receipts Over / (Under) Disbursements	7,158,426	3,997,686	3,160,740	79.1	(1,428,827)
Net Increase / (Decrease) in Temporary Loans	(7,158,426)	(3,997,686)	(3,160,740)	-	1,428,827
GENERAL FUND ENDING CASH BALANCE	-	-	-		-
Special Fund for Economic Uncertainties			-	-	-
TOTAL CASH	$ -	$ -	$ -		$ -
BORROWABLE RESOURCES					
Available Borrowable Resources	$ 21,215,251	$ 19,028,200	$ 2,187,051	11.5	$ 20,824,299
Outstanding Loans (b)	2,434,865	5,595,603	(3,160,738)	(56.5)	9,593,291
Unused Borrowable Resources	$ 18,780,386	$ 13,432,597	$ 5,347,789	39.8	$ 11,231,008

General Note:
This report is based upon funded cash. Funded cash is cash reported to and recorded in the records of the State Controller's Office. Amounts reported as funded cash may differ from amounts in other reports to the extent there are timing differences in the recording of in-transit items.

Footnotes:
(a) A Statement of Estimated Cash Flow for the 2012-13 fiscal year was prepared by the Department of Finance for the 2012 Budget Act. Any projections or estimates are set forth as such and not as representation of facts.
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(c) Negative amounts are the result of repayments received that are greater than disbursements made.
(d) Debt Service amounts are net of offsets such as federal subsidies and reimbursements from other sources. To the extent that these offsets do not occur when anticipated, there can be variances between actuals and estimates on a month-to-month basis.
Continued on page B2.

SCHEDULE OF CASH RECEIPTS
(Amounts in thousands)

	Month of June		July 1 through June 30				2012
			2013				
	2013	2012	Actual	Estimate (a)	Actual Over or (Under) Estimate Amount	%	Actual
REVENUES							
Alcoholic Beverage Excise Tax	$ 29,418	$ 22,860	$ 360,803	$ 339,000	$ 21,803	6.4	$ 338,178
Corporation Tax	2,112,500	1,664,304	7,620,406	8,414,000	(793,594)	(9.4)	8,051,423
Cigarette Tax	13,163	8,290	91,172	93,000	(1,828)	(2.0)	100,906
Estate, Inheritance, and Gift Tax	371	478	4,303	-	4,303	-	3,991
Insurance Companies Tax	326,110	348,161	2,244,313	2,088,000	156,313	7.5	2,187,463
Personal Income Tax	8,029,598	6,914,343	67,314,600	62,801,000	4,513,600	7.2	50,699,002
Retail Sales and Use Taxes	2,050,138	1,781,338	20,073,343	20,374,600	(301,257)	(1.5)	19,438,408
Vehicle License Fees	261	1,104	7,493	3,000	4,493	149.8	83,406
Pooled Money Investment Interest	4,178	4,691	23,426	30,000	(6,574)	(21.9)	25,605
Not Otherwise Classified	558,666	635,030	2,338,513	2,536,393	(197,880)	-	2,545,502
Total Revenues	**13,124,403**	**11,380,599**	**100,078,372**	**96,678,993**	**3,399,379**	**3.5**	**83,473,884**
NONREVENUES							
Transfers from Special Fund for Economic Uncertainties	-	-	-	-	-	-	715,854
Transfers from Other Funds	340,873	338,557	2,051,308	1,810,575	240,733	13.3	2,348,551
Miscellaneous	38,652	75,018	1,294,994	722,171	572,823	79.3	1,231,498
Total Nonrevenues	**379,525**	**413,575**	**3,346,302**	**2,532,746**	**813,556**	**32.1**	**4,295,903**
Total Receipts	**$ 13,503,928**	**$ 11,794,174**	**$ 103,424,674**	**$ 99,211,739**	**$ 4,212,935**	**4.2**	**$ 87,769,787**

See notes on page B1 and B2.

(e) A $1.0 billion advance was made from the General Fund to the Medi-Cal Provider Interim Payment Fund and repayment is anticipated in July 2013. Consequently, the disbursements for Local Assistance Medical Assistance program will increase in July.

(f) Redemption of $1.9 billion of Prop 1A obligations are accounted for under State Operations, General Government, while this amount was included in Department of Finance projections under Local Assistance, Other Local Assistance.

SCHEDULE OF CASH DISBURSEMENTS
(Amounts in thousands)

	Month of June		July 1 through June 30					
			2013					2012
	2013	2012	Actual	Estimate (a)	Actual Over or (Under) Estimate Amount		%	Actual
STATE OPERATIONS (c)								
Legislative/Judicial/Executive	$ 73,106	$ 101,831	$ 1,000,838	$ 1,425,157	$ (424,319)		(29.8)	$ 1,253,131
State and Consumer Services	48,269	50,175	663,371	689,135	(25,764)		(3.7)	590,961
Business, Transportation and Housing	269	989	3,978	1,431	2,547		-	26,876
Resources	59,696	26,455	1,143,350	1,010,915	132,435		13.1	929,868
Environmental Protection Agency	3,169	3,910	34,023	41,252	(7,229)		(17.5)	35,694
Health and Human Services:								
Health Services	16,949	20,666	217,429	231,013	(13,584)		(5.9)	222,734
Mental Health	65,279	93,712	1,161,511	1,288,500	(126,989)		(9.9)	1,232,235
Other Health and Human Services	(14,830)	(12,771)	469,474	526,879	(57,405)		(10.9)	967,807
Education:								
University of California	502,167	651,602	2,386,114	2,384,855	1,259		0.1	2,277,772
State Universities and Colleges	62,144	(56)	2,244,988	2,250,902	(5,914)		(0.3)	1,999,976
Other Education	10,901	11,547	169,881	129,475	40,406		31.2	164,030
Dept. of Corrections and Rehabilitation	646,220	560,848	7,788,842	8,573,380	(784,538)		(9.2)	7,991,944
General Government	2,105,094	165,271	4,270,890	1,583,787	2,687,103	(f)	169.7	1,914,058
Public Employees Retirement System	(145,308)	(142,535)	(6,616)	(17,264)	10,648		-	(6,331)
Debt Service (d)	473,119	432,064	4,482,775	4,348,541	134,234		3.1	4,744,822
Interest on Loans	161,738	83,548	99,862	204,000	(104,138)		-	85,767
Total State Operations	**4,067,982**	**2,047,256**	**26,130,710**	**24,671,958**	**1,458,752**		**5.9**	**24,431,344**
LOCAL ASSISTANCE (c)								
Public Schools - K-12	6,880,525	570,189	36,476,720	35,619,519	857,201		2.4	29,269,540
Community Colleges	842,868	100,095	3,584,580	3,635,123	(50,543)		(1.4)	3,284,018
Debt Service-School Building Bonds	-	-	-	(389)	389		-	-
Contributions to State Teachers' Retirement System	-	-	1,359,675	1,359,675	-		-	1,316,108
Other Education	(27,177)	34,209	1,813,620	1,568,514	245,106		15.6	3,482,653
School Facilities Aid	-	-	-	389	(389)		(100.0)	-
Dept. of Corrections and Rehabilitation	3,009	1,837	223,654	170,572	53,082		31.1	234,339
Dept. of Alcohol and Drug Program	1,583	(18,487)	42,770	9,500	33,270		350.2	53,548
Dept. of Health Services:								
Medical Assistance Program	99,102	579,231	14,391,478	14,218,407	173,071	(e)	1.2	15,096,282
Other Health Services	10,178	(24,746)	108,352	388,152	(279,800)		(72.1)	24,062
Dept. of Developmental Services	(21,128)	42,600	2,037,886	1,727,392	310,494		18.0	2,097,430
Dept. of Mental Health	-	148,745	10,664	13,130	(2,466)		(18.8)	357,495
Dept. of Social Services:								
SSI/SSP/IHSS	300,849	391,185	4,453,798	4,474,341	(20,543)		(0.5)	4,497,175
CalWORKs	55,369	95,818	1,348,177	1,711,682	(363,505)		(21.2)	1,744,646
Other Social Services	37,388	28,148	682,154	673,540	8,614		1.3	827,068
Tax Relief	-	-	427,285	433,152	(5,867)		(1.4)	433,008
Other Local Assistance	52,554	82,048	1,134,295	3,403,697	(2,269,402)	(f)	(66.7)	1,862,287
Total Local Assistance	**8,235,120**	**2,030,872**	**68,095,108**	**69,406,396**	**(1,311,288)**		**(1.9)**	**64,579,659**

See notes on page B1 and B2.

(Continued)

SCHEDULE OF CASH DISBURSEMENTS (Continued)
(Amounts in thousands)

	Month of June		July 1 through June 30				
			2013				2012
	2013	2012	Actual	Estimate (a)	Actual Over or (Under) Estimate Amount	%	Actual
CAPITAL OUTLAY	**8,870**	**5,800**	**117,388**	**178,150**	**(60,762)**	**(34.1)**	**190,873**
NONGOVERNMENTAL (c)							
Transfer to Special Fund for Economic Uncertainties	-	-	473,243	473,243	-	-	-
Transfer to Budget Stabilization Account	-	-	-	-	-	-	-
Transfer to Other Funds	43,740	81,149	404,748	494,262	(89,514)	(18.1)	339,670
Transfer to Revolving Fund	(10,989)	(38,286)	(9,808)	-	(9,808)	-	(44,495)
Advance:							
MediCal Provider Interim Payment	-	-	1,000,000	-	1,000,000 (e)	-	-
State-County Property Tax Administration Program	(4,380)	(31,995)	18,682	-	18,682	-	6,459
Social Welfare Federal Fund	28,000	29,000	(63,763)	-	(63,763)	-	(39,483)
Local Governmental Entities	-	-	60,000	-	60,000	-	-
Tax Relief and Refund Account	-	-	-	-	-	-	-
Counties for Social Welfare	315,672	275,732	39,940	(9,956)	49,896	-	(265,413)
Total Nongovernmental	**372,043**	**315,600**	**1,923,042**	**957,549**	**965,493**	**-**	**(3,262)**
Total Disbursements	**$ 12,684,015**	**$ 4,399,528**	**$ 96,266,248**	**$ 95,214,053**	**$ 1,052,195**	**1.1**	**$ 89,198,614**
TEMPORARY LOANS							
Special Fund for Economic Uncertainties	$ 948,200	$ -	$ 473,243	$ 473,243	$ -	-	$ (715,854)
Budget Stabilization Account	-	-	-	-	-	-	-
Outstanding Registered Warrants Account	-	-	-	-	-	-	-
Other Internal Sources	1,486,665	(1,494,646)	(7,631,669)	(4,470,929)	(3,160,740)	-	2,144,681
Revenue Anticipation Notes	(7,500,000)	(5,900,000)	-	-	-	-	-
Net Increase / (Decrease) Loans	**(5,065,135)**	**$ (7,394,646)**	**$ (7,158,426)**	**$ (3,997,686)**	**$ (3,160,740)**	**-**	**$ 1,428,827**

See notes on page B1 and B2.

(Concluded)

STATEMENT of GENERAL FUND CASH RECEIPTS and DISBURSEMENTS

September 2013

JOHN CHIANG
California State Controller

JOHN CHIANG
California State Controller

October 10, 2013

Users of the Statement of General Fund Cash Receipts and Disbursements:

Enclosed is the Statement of General Fund Cash Receipts and Disbursements for the period July 1, 2013, through September 30, 2013. This statement reflects the State of California's General Fund cash position and compares actual receipts and disbursements for the 2013-14 fiscal year to cash flow estimates prepared by the Department of Finance (DOF) for the 2013-14 Budget Act. The statement is prepared in compliance with Provision 7 of Budget Act item 0840-001-0001, using records compiled by the State Controller. Prior year actual amounts are also displayed for comparative purposes.

Attachment A compares actual receipts and disbursements for the 2013-14 fiscal year to cash flow estimates published in the 2013-14 Budget Act. These cash flow estimates are predicated on projections and assumptions made by the DOF in preparation of the 2013-14 Budget Act.

These statements are also available on the Internet at the State Controller's website at www.sco.ca.gov under the category Monthly Financial Reports.

Any questions concerning this report may be directed to Casandra Moore-Hudnall, Acting Division Chief of Accounting and Reporting, at (916) 445-5834.

Sincerely,
Original signed by:

JOHN CHIANG
California State Controller

STATEMENT OF GENERAL FUND CASH RECEIPTS AND DISBURSEMENTS
A Comparison of Actual to 2013-14 Budget Act
(Amounts in thousands)

	July 1 through September 30				
	2013				2012
	Actual	Estimate (a)	Actual Over or (Under) Estimate Amount	%	Actual
GENERAL FUND BEGINNING CASH BALANCE	$ -	$ -	$ -	-	$ -
Add Receipts:					
Revenues	20,184,220	20,091,000	93,220	0.5	18,044,199
Nonrevenues	227,060	167,170	59,890	35.8	975,957
Total Receipts	20,411,280	20,258,170	153,110	0.8	19,020,156
Less Disbursements:					
State Operations	6,398,691	6,466,168	(67,477)	(1.0)	5,534,078
Local Assistance	27,173,092	27,312,685	(139,593)	(0.5)	26,026,961
Capital Outlay	109,174	105,463	3,711	3.5	89,668
Nongovernmental	(950,091)	(1,161,672)	211,581	-	100,234
Total Disbursements	32,730,866	32,722,644	8,222	0.0	31,750,941
Receipts Over / (Under) Disbursements	(12,319,586)	(12,464,474)	144,888	-	(12,730,785)
Net Increase / (Decrease) in Temporary Loans	12,319,586	12,464,474	(144,888)	(1.2)	12,730,785
GENERAL FUND ENDING CASH BALANCE	-	-	-		-
Special Fund for Economic Uncertainties	-	-	-	-	-
TOTAL CASH	$ -	$ -	$ -		$ -
BORROWABLE RESOURCES					
Available Borrowable Resources	$ 27,285,182	$ 28,055,200	$ (770,018) (e)	(2.7)	$ 33,932,571
Outstanding Loans (b)	14,754,451	14,899,338	(144,887)	(1.0)	22,324,076
Unused Borrowable Resources	$ 12,530,731	$ 13,155,862	$ (625,131)	(4.8)	$ 11,608,495

General Note:
This report is based upon funded cash. Funded cash is cash reported to and recorded in the records of the State Controller's Office. Amounts reported as funded cash may differ from amounts in other reports to the extent there are timing differences in the recording of in-transit items.

Footnotes:
(a) A Statement of Estimated Cash Flow for the 2013-14 fiscal year was prepared by the Department of Finance for the 2013 Budget Act. Any projections or estimates are set forth as such and not as representation of facts.
(b) Outstanding loan balance of $14.7 billion is comprised of $9.2 billion of internal borrowing and $5.5 billion of external borrowing. Current balance is comprised of $2.4 billion carried forward from June 30, 2013, plus current year Net Increase/(Decrease) in Temporary Loans of $12.3 billion.
(c) Negative amounts are the result of repayments received that are greater than disbursements made.
(d) Debt Service amounts are net of offsets such as federal subsidies and reimbursements from other sources. To the extent that these offsets do not occur when anticipated, there can be variances between actuals and estimates on a month-to-month basis.
(e) On August 22, 2013, $5.5 billion of Revenue Anticipation Notes (RANs) proceeds were received.

SCHEDULE OF CASH RECEIPTS
(Amounts in thousands)

	Month of September		July 1 through September 30				2012
			2013				
	2013	2012	Actual	Estimate (a)	Actual Over or (Under) Estimate Amount	%	Actual
REVENUES							
Alcoholic Beverage Excise Tax	$ 4,052	$ 27,027	$ 67,976	$ 87,000	$ (19,024)	(21.9)	$ 68,498
Corporation Tax	811,636	774,190	1,095,781	1,139,000	(43,219)	(3.8)	1,080,022
Cigarette Tax	14,346	7,669	22,797	24,000	(1,203)	(5.0)	17,161
Estate, Inheritance, and Gift Tax	489	87	4,322	-	4,322	-	1,446
Insurance Companies Tax	334,799	323,303	559,504	552,000	7,504	1.4	525,744
Personal Income Tax	5,317,922	4,406,298	12,680,261	12,549,000	131,261	1.0	11,361,038
Retail Sales and Use Taxes	1,894,982	1,468,481	5,349,742	5,238,000	111,742	2.1	4,560,739
Vehicle License Fees	225	692	942	-	942	-	2,859
Pooled Money Investment Interest	2,045	1,623	6,223	8,000	(1,777)	(22.2)	7,024
Not Otherwise Classified	101,337	147,064	396,672	494,000	(97,328)	-	419,668
Total Revenues	**8,481,833**	**7,156,434**	**20,184,220**	**20,091,000**	**93,220**	**0.5**	**18,044,199**
NONREVENUES							
Transfers from Special Fund for Economic Uncertainties	-	-	-	-	-	-	-
Transfers from Other Funds	25,006	410,121	61,414	19,893	41,521	208.7	845,752
Miscellaneous	37,023	10,491	165,646	147,277	18,369	12.5	130,205
Total Nonrevenues	**62,029**	**420,612**	**227,060**	**167,170**	**59,890**	**35.8**	**975,957**
Total Receipts	**$ 8,543,862**	**$ 7,577,046**	**$ 20,411,280**	**$ 20,258,170**	**$ 153,110**	**0.8**	**$ 19,020,156**

See notes on page A1.

SCHEDULE OF CASH DISBURSEMENTS
(Amounts in thousands)

	Month of September		July 1 through September 30				
			2013				2012
	2013	2012	Actual	Estimate (a)	Actual Over or (Under) Estimate Amount	%	Actual
STATE OPERATIONS (c)							
Legislative/Judicial/Executive	$ 347,443	$ 127,726	$ 711,774	$ 516,211	$ 195,563	37.9	$ 470,123
Business, Consumer Services and Housing	1,429	44,318	5,132	3,672	1,460	39.8	167,072
Transportation	-	616	39	-	39	-	985
Resources	112,152	114,274	319,164	338,098	(18,934)	(5.6)	360,086
Environmental Protection Agency	3,407	2,730	10,881	12,114	(1,233)	(10.2)	6,752
Health and Human Services:							
Health Care Services and Public Health	19,446	25,005	133,742	161,040	(27,298)	(17.0)	102,290
Department of State Hospitals	115,186	108,744	333,849	338,621	(4,772)	(1.4)	287,341
Other Health and Human Services	66,816	53,049	216,692	342,765	(126,073)	(36.8)	158,450
Education:							
University of California	114,410	105,918	193,760	191,833	1,927	1.0	125,687
State Universities and Colleges	224,893	262,043	673,172	695,348	(22,176)	(3.2)	536,777
Other Education	20,241	14,262	55,648	64,512	(8,864)	(13.7)	48,133
Dept. of Corrections and Rehabilitation	699,029	668,087	2,179,546	2,255,802	(76,256)	(3.4)	1,773,382
Governmental Operations	53,157	-	191,292	185,316	5,976	3.2	-
General Government	444,896	481,959	767,176	664,668	102,508	15.4	838,590
Public Employees Retirement System	(158,519)	(147,322)	(45,593)	(13,793)	(31,800)	-	(20,619)
Debt Service (d)	335,086	471,631	704,905	769,959	(65,054)	(8.4)	793,712
Interest on Loans	261	583	(52,488)	(59,998)	7,510	-	(114,683)
Total State Operations	**2,399,333**	**2,333,623**	**6,398,691**	**6,466,168**	**(67,477)**	**(1.0)**	**5,534,078**
LOCAL ASSISTANCE (c)							
Public Schools - K-12	4,250,155	3,275,308	14,382,079	14,807,565	(425,486)	(2.9)	14,911,582
Community Colleges	517,285	231,396	1,752,712	1,749,048	3,664	0.2	1,409,843
Debt Service-School Building Bonds	-	-	-	-	-	-	-
Contributions to State Teachers' Retirement System	-	-	182,598	194,642	(12,044)	(6.2)	224,968
Other Education	532,389	264,697	977,046	603,742	373,304	61.8	1,360,382
School Facilities Aid	-	-	-	-	-	-	-
Dept. of Corrections and Rehabilitation	2,312	145,699	47,365	152,580	(105,215)	(69.0)	156,904
Dept. of Alcohol and Drug Program	-	(4,206)	-	-	-	-	41,550
Health Care Services and Public Health:							
Medical Assistance Program	1,728,286	1,147,075	5,700,752	5,402,997	297,755	5.5	3,914,533
Other Health Care Services/Public Health	(34,873)	31,482	21,223	61,605	(40,382)	(65.5)	80,716
Developmental Services - Regional Centers	440,587	(36,756)	1,161,674	1,075,444	86,230	8.0	1,123,156
Department of State Hospitals	-	4,038	-	-	-	-	9,045
Dept. of Social Services:							
SSI/SSP/IHSS	534,415	469,692	1,461,200	1,531,230	(70,030)	(4.6)	1,533,338
CalWORKs	128,441	343,624	457,254	547,135	(89,881)	(16.4)	553,917
Other Social Services	76,202	90,801	194,026	186,831	7,195	3.9	153,759
Tax Relief	-	-	-	298	(298)	(100.0)	-
Other Local Assistance	255,879	173,010	835,163	999,568	(164,405)	(16.4)	553,268
Total Local Assistance	**8,431,078**	**6,135,860**	**27,173,092**	**27,312,685**	**(139,593)**	**(0.5)**	**26,026,961**

See notes on page A1.

(Continued)

SCHEDULE OF CASH DISBURSEMENTS (Continued)
(Amounts in thousands)

	Month of September		July 1 through September 30				2012
			2013				
	2013	2012	Actual	Estimate (a)	Actual Over or (Under) Estimate Amount	%	Actual
CAPITAL OUTLAY	**83,627**	**1,077**	**109,174**	**105,463**	**3,711**	**3.5**	**89,668**
NONGOVERNMENTAL (c)							
Transfer to Special Fund for Economic Uncertainties	-	-	-	-	-	-	-
Transfer to Budget Stabilization Account	-	-	-	-	-	-	-
Transfer to Other Funds	-	4,500	326,394	154,000	172,394	111.9	289,202
Transfer to Revolving Fund	(6)	(4,818)	7,047	-	7,047	-	4,193
Advance:							
MediCal Provider Interim Payment	-	-	(1,000,000)	(1,000,000)	-	-	-
State-County Property Tax Administration Program	(25,774)	1,493	3,435	-	3,435	-	29,208
Social Welfare Federal Fund	56,705	29,320	28,705	-	28,705	-	(6,637)
Local Governmental Entities	-	-	-	-	-	-	60,000
Tax Relief and Refund Account	-	-	-	-	-	-	-
Counties for Social Welfare	-	-	(315,672)	(315,672)	-	-	(275,732)
Total Nongovernmental	**30,925**	**30,495**	**(950,091)**	**(1,161,672)**	**211,581**	**-**	**100,234**
Total Disbursements	**$ 10,944,963**	**$ 8,501,055**	**$ 32,730,866**	**$ 32,722,644**	**$ 8,222**	**0.0**	**$** 31,750,941
TEMPORARY LOANS							
Special Fund for Economic Uncertainties	$ -	$ -	$ -	$ -	$ -	-	$ -
Budget Stabilization Account	-	-	-	-	-	-	-
Outstanding Registered Warrants Account	-	-	-	-	-	-	-
Other Internal Sources	2,401,101	924,009	6,819,586	6,964,474	(144,888)	-	2,730,785
Revenue Anticipation Notes	-	-	5,500,000	5,500,000	-	-	10,000,000
Net Increase / (Decrease) Loans	**2,401,101**	**$ 924,009**	**$ 12,319,586**	**$ 12,464,474**	**$ (144,888)**	**(1.2)**	**$ 12,730,785**

See notes on page A1.

(Concluded)

COMPARATIVE STATEMENT OF REVENUES RECEIVED
All Governmental Cost Funds
(Amounts in thousands)

	July 1 through September 30			
	General Fund		Special Funds	
	2013	2012	2013	2012
MAJOR TAXES, LICENSES, AND INVESTMENT INCOME:				
Alcoholic Beverage Excise Taxes	$ 67,976	$ 68,498	$ -	$ (2)
Corporation Tax	1,095,781	1,080,022	1	1
Cigarette Tax	22,797	17,161	195,852	144,624
Estate, Inheritance, and Gift Tax	4,322	1,446	-	-
Insurance Companies Tax	559,504	525,744	246,736	1,921
Motor Vehicle Fuel Tax:				
Gasoline Tax	-	-	1,421,841	1,329,072
Diesel & Liquid Petroleum Gas	-	-	79,857	73,206
Jet Fuel Tax	-	-	792	605
Vehicle License Fees	942	2,859	567,135	491,244
Motor Vehicle Registration and Other Fees	-	-	1,106,301	990,475
Personal Income Tax	12,680,261	11,361,038	232,889	203,903
Retail Sales and Use Taxes	5,349,742	4,560,739	3,062,686	2,870,349
Pooled Money Investment Interest	6,223	7,024	39	16
Total Major Taxes, Licenses, and Investment Income	**19,787,548**	**17,624,531**	**6,914,129**	**6,105,414**
NOT OTHERWISE CLASSIFIED:				
Alcoholic Beverage License Fee	936	811	14,734	14,750
Electrical Energy Tax	-	-	132,881	159,883
Private Rail Car Tax	-	-	-	-
Penalties on Traffic Violations	-	-	12,783	6,983
Health Care Receipts	1,204	3,749	4	-
Revenues from State Lands	107,252	75,863	-	-
Abandoned Property	(8,928)	(5,912)	-	-
Trial Court Revenues	12,713	13,241	329,156	313,655
Horse Racing Fees	292	304	3,540	3,559
Cap and Trade	-	-	138,495	-
Miscellaneous	283,203	331,612	2,932,444	2,916,572
Not Otherwise Classified	**396,672**	**419,668**	**3,564,037**	**3,415,402**
Total Revenues, All Governmental Cost Funds	**$ 20,184,220**	**$ 18,044,199**	**$ 10,478,166**	**$ 9,520,816**

See notes on page A1.

APPENDIX B

THE BOOK-ENTRY ONLY SYSTEM

The information in numbered paragraphs 1 through 10 of this Appendix B regarding DTC's Book Entry System has been provided by DTC for use in securities offering documents, and the State takes no responsibility for the accuracy or completeness thereof. The State cannot and does not give any assurances that DTC, DTC Participants or Indirect Participants will distribute to the Beneficial Owners either (a) payments of principal and interest (including any applicable purchase price or redemption price) with respect to the Bonds, (b) notices of redemption or notices of mandatory tender, or (c) certificates representing ownership interest in or other confirmation of ownership interest in the Bonds, or that they will so do on a timely basis or that DTC, DTC Participants or DTC Indirect Participants will act in the manner described in this Official Statement. The current "Rules" applicable to DTC are on file with the Securities and Exchange Commission and the current "Procedures" of DTC to be followed in dealing with DTC Participants are on file with DTC.

1. The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the bonds (the "Bonds"). The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for each maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC. If, however, the aggregate principal amount of any maturity exceeds $500 million, one certificate will be issued with respect to each $500 million of principal amount and an additional certificate will be issued with respect to any remaining principal amount of such maturity.

2. 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 Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC

Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

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

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

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

6. Redemption notices shall be sent to DTC. If less than all of the 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.

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

8. Redemption proceeds, principal and interest payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the State Treasurer, on the payable dates 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 or the State Treasurer, subject to any statutory, or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, 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 State Treasurer, 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.

9. DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the State Treasurer. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered.

10. The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the State believes to be reliable, but the State takes no responsibility for the accuracy thereof.

The foregoing description of the procedures and record keeping with respect to beneficial ownership interests in the Bonds, payment of principal of and interest and other payments with respect to the Bonds to Direct Participants, Indirect Participants or Beneficial Owners, confirmation and transfer of beneficial ownership interest in such Bonds and other related transactions by and between DTC, the Direct Participants, the Indirect Participants and the Beneficial Owners is based solely on information provided by DTC. Accordingly, no representations can be made concerning these matters and neither the Direct Participants, the Indirect Participants nor the Beneficial Owners should rely on the foregoing information with respect to such matters but should instead confirm the same with DTC or the Participants, as the case may be. The State Treasurer will not have any responsibility or obligation to Direct Participants and Indirect Participants or the persons for whom they act as nominees with respect to the Bonds.

THE STATE TREASURER, AS LONG AS A BOOK-ENTRY ONLY SYSTEM IS USED FOR THE BONDS, WILL SEND ANY NOTICE OF REDEMPTION, ANY NOTICE OF MANDATORY TENDER OR ANY OTHER NOTICE FOR OWNERS TO ONLY DTC. ANY FAILURE OF DTC TO ADVISE ANY DTC PARTICIPANT, OR OF ANY DTC PARTICIPANT TO NOTIFY ANY BENEFICIAL OWNER, OF ANY NOTICE AND ITS CONTENT OR EFFECT WILL NOT AFFECT THE VALIDITY OR SUFFICIENCY OF (1) THE PROCEEDINGS RELATING TO THE REDEMPTION OF THE BONDS CALLED FOR REDEMPTION, (2) THE PROCEEDINGS RELATING TO THE PURCHASE OF ANY MANDATORY PUT BONDS SUBJECT TO MANDATORY TENDER, OR (3) ANY OTHER ACTION PREMISED ON ANY SUCH NOTICE.

SO LONG AS CEDE & CO. IS THE REGISTERED OWNER OF THE BONDS, AS NOMINEE OF DTC, REFERENCES HEREIN TO THE HOLDERS OF THE BONDS (OTHER THAN UNDER THE CAPTION "TAX MATTERS" HEREIN) SHALL MEAN CEDE & CO., AS AFORESAID, AND SHALL NOT MEAN THE BENEFICIAL OWNERS OF THE BONDS.

The State Treasurer may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). If the State Treasurer determines not to continue the DTC book-entry only system, or DTC discontinues providing its services with respect to the Bonds and the State Treasurer does not select another qualified securities depository, the State will deliver physical Bond certificates to the Beneficial Owners. The Bonds may thereafter be transferred upon the books of the State Treasurer by the registered owners, in person or by authorized attorney, upon surrender of Bonds at the Office of the State Treasurer in Sacramento, California, accompanied by delivery of an executed instrument of transfer in a form approved by the State Treasurer and upon payment of any charges provided for in the Resolutions. Certificated bonds may be exchanged for Bonds of other authorized denominations of the same aggregate principal amount and maturity at the Office of the State Treasurer in Sacramento, California, upon payment of any charges provided for in the Resolutions. No transfer or exchange of Bonds will be made by the State Treasurer during the period between the record date and the next Interest Payment Date.

APPENDIX C

FORM OF CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (this "Disclosure Certificate") is executed and delivered as of November 5, 2013 by the Treasurer of the State of California (the "State Treasurer") in connection with the issuance of $689,630,000 aggregate principal amount of the State of California Various Purpose General Obligation Bonds, $234,715,000 aggregate principal amount of the State of California General Obligation Bonds (School Facilities), $723,145,000 aggregate principal amount of the State of California Various Purpose General Obligation Refunding Bonds and $450,000,000 aggregate principal amount of the State of California General Obligation Bonds (Mandatory Put Bonds) (collectively, the "Bonds") as authorized by various acts of the State of California legislature (the "Acts"). The Bonds are being issued pursuant to resolutions of finance committees (the "Resolutions") designated under the Acts. Pursuant to the Resolutions, the State Treasurer, on behalf of the State of California (the "State"), covenants and agrees as follows:

Section 1. Nature of the Disclosure Certificate. This Disclosure Certificate is executed and delivered for the benefit of the Holders and Beneficial Owners (as defined below) of the Bonds from time to time, and in order to assist the Participating Underwriters (as defined below) in complying with the Rule (as defined below), but shall not be deemed to create any monetary liability on the part of the State or the State Treasurer to any other persons, including Holders or Beneficial Owners of the Bonds based on the Rule. The sole remedy in the event of any failure of the State Treasurer to comply with this Disclosure Certificate shall be an action to compel performance of any act required hereunder.

Section 2. Definitions. In addition to the definitions set forth in the Resolutions, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

"Annual Report" shall mean any Annual Report provided by the State Treasurer pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

"Beneficial Owner" shall mean any person who has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries).

"Dissemination Agent" shall mean the State Treasurer, acting in its capacity as Dissemination Agent hereunder, or any successor Dissemination Agent designated in writing by the State Treasurer and which has filed with the State Treasurer a written acceptance of such designation.

"Holder" shall mean any person listed on the registration books of the State Treasurer as the registered owner of any Bonds.

"Listed Event" shall mean any of the events listed in Section 5(a) or (b) of this Disclosure Certificate.

"MSRB" shall mean the Municipal Securities Rulemaking Board or any other entity designated or authorized by the SEC to receive reports or notices pursuant to the Rule. Until otherwise designated by the MSRB or the SEC, filings with the MSRB are to be made through the Electronic Municipal Market Access (EMMA) website of the MSRB, currently located at http://emma.msrb.org.

"Official Statement" shall mean the official statement relating to the Bonds, dated October 22, 2013.

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

"Rule" shall mean Rule 15c2-12(b)(5) adopted by the SEC under the Securities Exchange Act of 1934, as the same may be amended from time to time.

"SEC" shall mean the Securities and Exchange Commission.

"State" shall mean the State of California.

Section 3. Provision of Annual Reports.

(a) The State Treasurer on behalf of the State shall, or shall cause the Dissemination Agent to, not later than April 1 of each year in which the Bonds are outstanding, commencing with the report for the 2012-13 fiscal year (which is due not later than April 1, 2014), provide to the MSRB an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. The Annual Report must be submitted in electronic format, accompanied by such identifying information as is prescribed by the MSRB, and may cross-reference other information as provided in Section 4 of this Disclosure Certificate; provided, that the audited financial statements of the State may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date in accordance with Section 4(a). If the State's fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(f). The Annual Report shall be submitted on a standard form in use by industry participants or other appropriate form and shall identify the Bonds by name and CUSIP number.

(b) Not later than 15 business days prior to said date, the State Treasurer shall provide the Annual Report to the Dissemination Agent (if other than the State Treasurer). If the State Treasurer is unable to provide to the MSRB an Annual Report by the date required in subsection (a), the State Treasurer shall send a notice to the MSRB in substantially the form attached as Exhibit A.

(c) The Dissemination Agent shall (if the Dissemination Agent is other than the State Treasurer) file a report with the State Treasurer certifying that the Annual Report has been provided pursuant to this Disclosure Certificate, stating the date it was provided to the MSRB.

Section 4. Content of Annual Reports. The Annual Report shall contain or include by reference the following:

(a) The audited Basic Financial Statements of the State for the fiscal year ended on the previous June 30, prepared in accordance with generally accepted accounting principles promulgated to apply to government entities from time to time by the Governmental Accounting Standards Board. If the State's audited financial statements are not available by the time the Annual Report is required to be provided to the MSRB pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be provided to the MSRB in the same manner as the Annual Report when they become available.

(b) Financial information relating to the State's General Fund budget for the fiscal year ended on the previous June 30 and information concerning the State budget for the fiscal year in which the Annual Report is issued. Such information shall describe the sources of revenues, the principal categories of expenditures, and changes in fund balances, a summary of expected State revenues and budgeted expenditures, and significant assumptions relating to revenue and expenditure expectations; including updating the following tables which appear under the caption APPENDIX A—"THE STATE OF CALIFORNIA—CURRENT STATE BUDGET" in the Official Statement:

Tables Entitled

Statement of Estimated Revenues, Expenditures, and Changes in Fund Balance—General Fund

General Fund Revenue Sources and Expenditures

(c) Information concerning the total amount of the State's authorized and outstanding debt, long-term lease obligations and other long-term liabilities as of the most recent June 30, which debt is supported by payments from the State's General Fund and which includes short-term debt. Such information shall include schedules of debt service for outstanding general obligation bonds and lease-purchase debt. This shall be accomplished by updating the following tables which appear under the caption APPENDIX A—"THE STATE OF CALIFORNIA—STATE DEBT TABLES" in the Official Statement.

Tables Entitled

Outstanding State Debt

Authorized and Outstanding General Obligation Bonds

General Obligation and Revenue Bonds—Summary of Debt Service Requirements

Schedule of Debt Service Requirements for General Fund—Non-Self Liquidating Bonds—Fixed Rate

Schedule of Debt Service Requirements for General Fund—Non-Self Liquidating Bonds—Variable Rate

Schedule of Debt Service Requirements for Special Revenue Fund—Self Liquidating Bonds—Fixed Rate

Schedule of Debt Service Requirements for Special Revenue Fund—Self Liquidating Bonds—Variable Rate

Schedule of Debt Service Requirements for Enterprise Fund—Self Liquidating Bonds—Fixed Rate

Schedule of Debt Service Requirements for Lease-Revenue Debt—Fixed Rate

State Public Works Board and Other Lease-Revenue Financing Outstanding Issues

State Agency Revenue Bonds and Conduit Financing

Notwithstanding the foregoing, each table referenced in this Section 4(c) will no longer be updated for any twelve month period ended June 30 that commences after all of the debt, long-term lease obligations, other long-term liabilities and/or short-term debt referenced in such table, as applicable, is no longer outstanding.

(d) The Annual Report may consist of one or more documents. Any or all of the items listed above may be included in the Annual Report by reference to other documents that have been filed by the State with the MSRB, including any final official statement (in which case such final official statement must also be available from the MSRB). The State Treasurer shall clearly identify in the Annual Report each such document so included by reference.

Section 5. Reporting of Significant Events.

(a) The State Treasurer shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds in a timely manner not later than ten business days after the occurrence of the event:

1. Principal and interest payment delinquencies;

2. Unscheduled draws on debt service reserves reflecting financial difficulties;

3. Unscheduled draws on credit enhancements reflecting financial difficulties;

4. Substitution of credit or liquidity providers, or their failure to perform;

5. Adverse tax opinions or issuance by the Internal Revenue Service of proposed or final determination of taxability or of a Notice of Proposed Issue (IRS Form 5701 TEB);

6. Tender offers;

7. Defeasances;

8. Rating changes; or

9. Bankruptcy, insolvency, receivership or similar event of the obligated person.

Note: for the purposes of the event identified in subparagraph (9), the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for an obligated person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the obligated person, or if such jurisdiction has been assumed by leaving the existing governmental body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the obligated person.

(b) The State Treasurer shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material, in a timely manner not later than ten business days after the occurrence of the event:

1. Unless described in paragraph 5(a)(5), other notices or determinations by the Internal Revenue Service with respect to the tax status of the Bonds or other events affecting the tax status of the Bonds;

2. Modifications to rights of Bond holders;

3. Optional, unscheduled or contingent Bond calls;

4. Release, substitution, or sale of property securing repayment of the Bonds;

5. Non-payment related defaults;

6. The consummation of a 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; or

7. Appointment of a successor or additional trustee or the change of name of a trustee.

(c) The State Treasurer notes that Sections 5(a)(2), (3) and (4) and 5(b)(4) are not applicable to the Bonds.

(d) The State Treasurer shall give, or cause to be given, in a timely manner, notice of a failure to provide the annual financial information on or before the date specified in Section 3(a), as provided in Section 3(b).

(e) Whenever the State Treasurer obtains knowledge of the occurrence of a Listed Event described in Section 5(b), the State Treasurer shall determine if such event would be material under applicable federal securities laws.

(f) Any notice required to be given pursuant to subsection (a) or (b) above shall be filed with the MSRB in electronic format, accompanied by such identifying information as is prescribed by the MSRB. Notice of the Listed Event described in subsection (b)(3) need not be given under this subsection any earlier than the notice of the underlying event is given to Holders of affected Bonds pursuant to the Resolutions.

Section 6. Termination of Reporting Obligation. The State's obligations under Sections 3, 4 and 5 of this Disclosure Certificate shall terminate upon the maturity, legal defeasance, prior redemption or acceleration of all of the outstanding Bonds or if less than all the Bonds are defeased, with respect to those Bonds. If such termination occurs prior to the final maturity of the Bonds, the State Treasurer shall give notice of such termination in the same manner as for a Listed Event under Section 5(f).

Section 7. Dissemination Agent. The State Treasurer may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out the obligations under this Disclosure Certificate, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the State Treasurer pursuant to this Disclosure Certificate. If at any time there is not any other designated Dissemination Agent, the State Treasurer shall be the Dissemination Agent. The initial Dissemination Agent shall be the State Treasurer.

Section 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the State Treasurer may amend any provision of this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that the following conditions are satisfied:

(a) If the amendment or waiver relates to the provisions of Section 3(a), 4, 5(a), (b), (d) or (f), or 8(a), it 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 an obligated person with respect to the Bonds, or the type of business conducted;

(b) The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver either (i) is approved by the Holders of 60 percent of the Bonds outstanding or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Holders or Beneficial Owners of the Bonds. The State also may amend this Disclosure Certificate without approval by the Holders to the extent permitted by rule, order or other official pronouncement of the SEC.

In the event of any amendment or waiver of a provision of this Disclosure Certificate, the State Treasurer shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or, in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the State. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a Listed Event under Section 5(f), and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

Section 9. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the State Treasurer from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the State Treasurer chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the State Treasurer shall not have any obligation under this Disclosure Certificate to update such information or include it in any Annual Report or future notice of occurrence of a Listed Event.

Section 10. Default. In the event of a failure of the State or State Treasurer to comply with any provision of this Disclosure Certificate, any Holder or Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the State or State Treasurer to comply with its obligations under this Disclosure Certificate. The sole remedy under this Disclosure Certificate in the event of any failure of the State or State Treasurer to comply with this Disclosure Certificate shall be an action to compel performance.

Section 11. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the Holders and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity (except the right of the Dissemination Agent or any Holder or Beneficial Owner to enforce the provisions of this Disclosure Certificate on behalf of the Holders). This Disclosure Certificate is not intended to create any monetary rights on behalf of any person based upon the Rule.

Section 12. Partial Invalidity. If any one or more of the agreements or covenants or portions thereof required hereby to be performed by or on the part of the State Treasurer shall be contrary to law, then such agreement or agreements, such covenant or covenants or such portions thereof shall be null and void and shall be deemed separable from the remaining agreements and covenants or portions thereof and shall in no way affect the validity hereof, and the Holders of the Bonds shall retain all the benefits afforded to them hereunder. The State Treasurer hereby declares that he would have executed and delivered this Disclosure Certificate and each and every other article, section, paragraph, subdivision, sentence, clause and phrase hereof irrespective of the fact that any one or more articles, sections, paragraphs, subdivisions, sentences, clauses or phrases hereof or the application thereof to any person or circumstance may be held to be unconstitutional, unenforceable or invalid.

Section 13. Governing Law. The laws of the State shall govern this Disclosure Certificate, the interpretation thereof and any right or liability arising hereunder. Any action or proceeding to enforce or interpret any provision of this Disclosure Certificate shall be brought, commenced or prosecuted in any courts of the State located in Sacramento County, California.

IN WITNESS WHEREOF, the State Treasurer has executed this Disclosure Certificate as of the date first above written.

By: ____________________________________

Deputy Treasurer
For California State Treasurer Bill Lockyer

CONTINUING DISCLOSURE EXHIBIT A

FORM OF NOTICE TO THE MUNICIPAL SECURITIES RULEMAKING BOARD
OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer:	STATE OF CALIFORNIA
Name of Bond Issue:	STATE OF CALIFORNIA Various Purpose General Obligation Bonds General Obligation Bonds (School Facilities) Various Purpose General Obligation Refunding Bonds General Obligation Bonds (Mandatory Put Bonds)
Date of Issuance:	November 5, 2013

NOTICE IS HEREBY GIVEN that the Issuer has not provided an Annual Report with respect to the above-named Bonds as required by Section 4 of the Continuing Disclosure Certificate of the Issuer, dated the Date of Issuance. [The Issuer anticipates that the Annual Report will be filed by _____________.]

Dated: _______________

STATE OF CALIFORNIA

By ________[to be signed only if filed]________

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APPENDIX D

PROPOSED FORMS OF LEGAL OPINIONS

FORM OF FINAL OPINION OF BOND COUNSEL

[Closing Date]

$2,097,490,000
STATE OF CALIFORNIA
GENERAL OBLIGATION BONDS

$689,630,000
VARIOUS PURPOSE GENERAL OBLIGATION BONDS

$234,715,000
GENERAL OBLIGATION BONDS (SCHOOL FACILITIES)

$723,145,000
VARIOUS PURPOSE GENERAL OBLIGATION REFUNDING BONDS

$450,000,000
GENERAL OBLIGATION BONDS (MANDATORY PUT BONDS)

(Final Opinion)

The Honorable Bill Lockyer
State Treasurer
Sacramento, California

We have acted as Bond Counsel to the State of California (the "State") in connection with the issuance by the State of (i) $689,630,000 aggregate principal amount of State of California Various Purpose General Obligation Bonds (the "Construction Bonds"), (ii) $234,715,000 aggregate principal amount of State of California General Obligation Bonds (School Facilities) (the "School Facilities Bonds"), (iii) $723,145,000 aggregate principal amount of State of California Various Purpose General Obligation Refunding Bonds (the "Refunding Bonds"), and (iv) $450,000,000 aggregate principal amount of State of California General Obligation Bonds (Mandatory Put Bonds) (the "Mandatory Put Bonds," and together with the Construction Bonds, the School Facilities Bonds and the "Refunding Bonds, the "Bonds"). The Bonds are dated November 5, 2013. All the bond acts under which the Bonds are issued are identified in Schedule A hereto, which is incorporated by reference. The Bonds are authorized pursuant to the respective bond acts identified in Schedule A (collectively, the "Laws") and are issued pursuant to Part 3 of Division 4 of Title 2 of the California Government Code and to resolutions (the "Resolutions") adopted by the respective finance committees designated under the Laws.

In such connection, we have examined the Resolutions, the tax certificate of the State relating to the Bonds, dated the date hereof (the "Tax Certificate"), other certifications of officials of the State, and such other documents, opinions and matters to the extent deemed necessary to render the opinions set forth herein.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. Accordingly, this letter speaks only as of its date and is not intended to, and may not, be relied upon or otherwise used in connection with any such actions, events or matters. We have no obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies). We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents referred to in the second paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Resolutions and the Tax Certificate, including (without limitation) covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause interest on the Bonds to be included in gross income for federal income tax purposes.

We call attention to the fact that the rights and obligations under the Bonds, the Resolutions and the Tax Certificate and their enforceability may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases, and to the limitations on legal remedies against the State. We express no opinion with respect to any indemnification, contribution, liquidity damages, penalty (including any remedy deemed to constitute a penalty), choice of law, choice of forum, choice of venue, waiver or severability provisions contained in foregoing documents. Our services did not include financial or other non-legal advice. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Bonds and express no opinion with respect thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The State has lawful authority for the issuance of the Bonds, and the Bonds constitute valid and binding general obligations of the State payable in accordance with the Laws from the General Fund of the State. The full faith and credit of the State are pledged to the punctual payment of the principal of and interest on the Bonds as the principal and interest become due and payable.

2. Interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code"). Interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although we observe that it is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Interest on the Bonds is exempt from State personal income taxes. We express no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on the Bonds.

Very truly yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

Per

Schedule A

$689,630,000
STATE OF CALIFORNIA
VARIOUS PURPOSE GENERAL OBLIGATION BONDS

Bond Act	Finance Committee	Name of Bonds (State of California)	Series Designation	Amount ($)
Higher Education Facilities Bond Act of June 1992	Higher Education Facilities Finance Committee	Higher Education Facilities Bonds	BD	105,000
Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006	Highway Safety, Traffic Reduction, Air Quality, and Port Security Committee	Highway Safety, Traffic Reduction, Air Quality, and Port Security Bonds	AE	257,420,000
Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006	Highway Safety, Traffic Reduction, Air Quality, and Port Security Committee	Highway Safety, Traffic Reduction, Air Quality, and Port Security Bonds	AF	158,325,000
Kindergarten-University Public Education Facilities Bond Act of 2004	Higher Education Facilities Finance Committee	Kindergarten-University Public Education Facilities Bonds	BF	1,910,000
Kindergarten-University Public Education Facilities Bond Act of 2006	Higher Education Facilities Finance Committee	Kindergarten-University Public Education Facilities Bonds	AM	124,045,000
Public Education Facilities Bond Act of 1996	Higher Education Facilities Finance Committee	Public Education Facilities Bonds	CK	240,000
Safe Neighborhood Parks, Clean Water, Clean Air, and Coastal Protection Bond Act of 2000 (the Villaraigosa-Keeley Act)	Safe Neighborhood Parks, Clean Water, Clean Air, and Coastal Protection (Villaraigosa-Keeley Act) Finance Committee	Safe Neighborhood Parks, Clean Water, Clean Air, and Coastal Protection Bonds	AV	11,995,000
Water Security, Clean Drinking Water, Coastal and Beach Protection Act of 2002	Water Security, Clean Drinking Water, Coastal and Beach Protection Act of 2002 Finance Committee	Water Security, Clean Drinking Water, Coastal and Beach Protection Bonds	AN	135,590,000

$234,715,000
STATE OF CALIFORNIA
GENERAL OBLIGATION BONDS
(SCHOOL FACILITIES)

Bond Act	Finance Committee	Name of Bonds (State of California)	Series Designation	Amount ($)
Kindergarten-University Public Education Facilities Bond Act of 2004	State School Building Finance Committee	Kindergarten-University Public Education Facilities Bonds	BG	36,760,000
Kindergarten-University Public Education Facilities Bond Act of 2006	State School Building Finance Committee	Kindergarten-University Public Education Facilities Bonds	AN	197,955,000

$723,145,000
STATE OF CALIFORNIA
VARIOUS PURPOSE GENERAL OBLIGATION REFUNDING BONDS

Bond Act	Finance Committee	Name of Bonds (State of California)	Series Designation	Amount ($)
1990 School Facilities Bond Act	State School Building Finance Committee	School Facilities Bonds	AG	50,000
California Clean Water, Clean Air, Safe Neighborhood Parks, and Coastal Protection Act of 2002	California Clean Water, Clean Air, Safe Neighborhood Parks, and Coastal Protection Act Finance Committee	Clean Water, Clean Air, Safe Neighborhood Parks, and Coastal Protection Bonds	AJ	1,330,000
California Clean Water, Clean Air, Safe Neighborhood Parks, and Coastal Protection Act of 2002	California Clean Water, Clean Air, Safe Neighborhood Parks, and Coastal Protection Act Finance Committee	Clean Water, Clean Air, Safe Neighborhood Parks, and Coastal Protection Bonds	AK	23,985,000
Class Size Reduction Kindergarten-University Public Education Facilities Bond Act of 1998	Higher Education Facilities Finance Committee	Class Size Reduction Kindergarten-University Public Education Facilities Bonds	DI	31,960,000
Class Size Reduction Kindergarten-University Public Education Facilities Bond Act of 1998	Higher Education Facilities Finance Committee	Class Size Reduction Kindergarten-University Public Education Facilities Bonds	DJ	15,775,000
Class Size Reduction Kindergarten-University Public Education Facilities Bond Act of 1998	Higher Education Facilities Finance Committee	Class Size Reduction Kindergarten-University Public Education Facilities Bonds	DK	18,610,000
Class Size Reduction Kindergarten-University Public Education Facilities Bond Act of 1998	State School Building Finance Committee	Class Size Reduction Kindergarten-University Public Education Facilities Bonds	DG	105,835,000

Bond Act	Finance Committee	Name of Bonds (State of California)	Series Designation	Amount ($)
Class Size Reduction Kindergarten-University Public Education Facilities Bond Act of 1998	State School Building Finance Committee	Class Size Reduction Kindergarten-University Public Education Facilities Bonds	DH	60,370,000
Clean Air and Transportation Improvement Bond Act of 1990	Transportation Improvement Finance Committee	Clean Air and Transportation Improvement Bonds	BZ	2,290,000
Clean Air and Transportation Improvement Bond Act of 1990	Transportation Improvement Finance Committee	Clean Air and Transportation Improvement Bonds	CA	1,740,000
Higher Education Facilities Bond Act of June 1990	Higher Education Facilities Finance Committee	Higher Education Facilities Bonds	BA	330,000
Higher Education Facilities Bond Act of June 1992	Higher Education Facilities Finance Committee	Higher Education Facilities Bonds	BE	360,000
Higher Education Facilities Bond Act of June 1992	Higher Education Facilities Finance Committee	Higher Education Facilities Bonds	BF	25,000
Kindergarten-University Public Education Facilities Bond Act of 2002	Higher Education Facilities Finance Committee	Kindergarten-University Public Education Facilities Bonds	BW	485,000
Kindergarten-University Public Education Facilities Bond Act of 2002	State School Building Finance Committee	Kindergarten-University Public Education Facilities Bonds	BX	14,115,000
Kindergarten-University Public Education Facilities Bond Act of 2002	State School Building Finance Committee	Kindergarten-University Public Education Facilities Bonds	BY	275,100,000
Public Education Facilities Bond Act of 1996	Higher Education Facilities Finance Committee	Public Education Facilities Bonds	CN	2,090,000
Public Education Facilities Bond Act of 1996	State School Building Finance Committee	Public Education Facilities Bonds	CL	660,000
Public Education Facilities Bond Act of 1996	State School Building Finance Committee	Public Education Facilities Bonds	CM	710,000
Safe Drinking Water, Clean Water, Watershed Protection, and Flood Protection Act	Safe Drinking Water, Clean Water, Watershed Protection, and Flood Protection Finance Committee	Safe Drinking Water, Clean Water, Watershed Protection, and Flood Protection Bonds	BF	3,705,000
Safe Drinking Water, Clean Water, Watershed Protection, and Flood Protection Act	Safe Drinking Water, Clean Water, Watershed Protection, and Flood Protection Finance Committee	Safe Drinking Water, Clean Water, Watershed Protection, and Flood Protection Bonds	BG	1,930,000
Safe Neighborhood Parks, Clean Water, Clean Air, and Coastal Protection Bond Act of 2000 (the Villaraigosa-Keeley Act)	Safe Neighborhood Parks, Clean Water, Clean Air, and Coastal Protection (Villaraigosa-Keeley Act) Finance Committee	Safe Neighborhood Parks, Clean Water, Clean Air, and Coastal Protection Bonds	AW	8,435,000

Bond Act	Finance Committee	Name of Bonds (State of California)	Series Designation	Amount ($)
Safe Neighborhood Parks, Clean Water, Clean Air, and Coastal Protection Bond Act of 2000 (the Villaraigosa-Keeley Act)	Safe Neighborhood Parks, Clean Water, Clean Air, and Coastal Protection (Villaraigosa-Keeley Act) Finance Committee	Safe Neighborhood Parks, Clean Water, Clean Air, and Coastal Protection Bonds	AX	6,255,000
Safe Neighborhood Parks, Clean Water, Clean Air, and Coastal Protection Bond Act of 2000 (the Villaraigosa-Keeley Act)	Safe Neighborhood Parks, Clean Water, Clean Air, and Coastal Protection (Villaraigosa-Keeley Act) Finance Committee	Safe Neighborhood Parks, Clean Water, Clean Air, and Coastal Protection Bonds	AY	20,210,000
Safe, Clean, Reliable Water Supply Act	Safe, Clean, Reliable Water Supply Finance Committee	Safe, Clean, Reliable Water Supply Bonds	BD	3,245,000
Safe, Clean, Reliable Water Supply Act	Safe, Clean, Reliable Water Supply Finance Committee	Safe, Clean, Reliable Water Supply Bonds	BE	3,995,000
Safe, Clean, Reliable Water Supply Act	Safe, Clean, Reliable Water Supply Finance Committee	Safe, Clean, Reliable Water Supply Bonds	BF	27,455,000
School Facilities Bond Act of 1992	State School Building Finance Committee	School Facilities Bonds	BI	500,000
Seismic Retrofit Bond Act of 1996	Seismic Retrofit Finance Committee	Seismic Retrofit Bonds	BE	7,715,000
Seismic Retrofit Bond Act of 1996	Seismic Retrofit Finance Committee	Seismic Retrofit Bonds	BF	10,055,000
Water Security, Clean Drinking Water, Coastal and Beach Protection Act of 2002	Water Security, Clean Drinking Water, Coastal and Beach Protection Act of 2002 Finance Committee	Water Security, Clean Drinking Water, Coastal and Beach Protection Bonds	AO	3,040,000
Water Security, Clean Drinking Water, Coastal and Beach Protection Act of 2002	Water Security, Clean Drinking Water, Coastal and Beach Protection Act of 2002 Finance Committee	Water Security, Clean Drinking Water, Coastal and Beach Protection Bonds	AP	70,785,000

$450,000,000
STATE OF CALIFORNIA
GENERAL OBLIGATION BONDS
(MANDATORY PUT BONDS)

Bond Act	Finance Committee	Name of Bonds (State of California)	Series Designation	Amount ($)
Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006	Highway Safety, Traffic Reduction, Air Quality, and Port Security Committee	Highway Safety, Traffic Reduction, Air Quality, and Port Security Bonds	2013A	225,000,000
Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006	Highway Safety, Traffic Reduction, Air Quality, and Port Security Committee	Highway Safety, Traffic Reduction, Air Quality, and Port Security Bonds	2013B	225,000,000

FORM OF OPINION OF THE ATTORNEY GENERAL
[Closing Date]

$689,630,000
STATE OF CALIFORNIA
Various Purpose General Obligation Bonds

$234,715,000
STATE OF CALIFORNIA
General Obligation Bonds
(SCHOOL FACILITIES)

$723,145,000
STATE OF CALIFORNIA
Various Purpose General Obligation Refunding Bonds

$450,000,000
STATE OF CALIFORNIA
General Obligation Bonds
(Mandatory Put Bonds)

The Honorable Bill Lockyer
State Treasurer
Sacramento, California

We have acted as counsel to the State of California (the "State") in connection with the issuance by the State of (i) $689,630,000 aggregate principal amount of State of California Various Purpose General Obligation Bonds (the "Construction Bonds"), (ii) $234,715,000 aggregate principal amount of State of California General Obligation Bonds (School Facilities) (the "School Facilities Bonds"), (iii) $723,145,000 aggregate principal amount of State of California Various Purpose General Obligation Refunding Bonds (the "Refunding Bonds"), and (iv) $450,000,000 aggregate principal amount of State of California General Obligation Bonds (Mandatory Put Bonds (the "Mandatory Put Bonds," and together with the Construction Bonds, the School Facilities Bonds and the Refunding Bonds, the "Bonds"), all dated November 5, 2013, and issued as forty-four (44) separate series under seventeen (17) bond acts, all identified in Schedule A hereto, which is incorporated by reference. The Bonds are authorized pursuant to the respective bond acts identified in Schedule A (collectively, the "Laws") and are issued pursuant to Chapter 4 of Part 3 of Division 4 of Title 2 of the California Government Code and to resolutions (the "Resolutions") adopted by the respective finance committees designated under the Laws.

In such connection, we have examined the record of proceedings submitted to us relative to the issuance of the Bonds, including the Resolutions, certifications of officials of the State, and such other documents and matters deemed necessary by us to render the opinions set forth herein, although in doing so, we have not undertaken to verify independently and have assumed the accuracy of the factual matters represented, warranted or certified therein.

The opinions expressed herein are based upon an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof and we disclaim any obligation to update this letter. We have neither undertaken to determine, nor to inform any person, whether any such actions are taken or omitted or events do occur or whether any other matters come to our attention after the date hereof. We have assumed the genuineness of all documents and signatures presented to us, the conformity to original documents and certificates of all documents and certificates submitted to us as certified or photostatic copies, and the authenticity of the originals of such latter documents and certificates. Furthermore, we have assumed compliance with the agreements and covenants contained in the Resolutions.

We call attention to the fact that the rights and obligations under the Bonds and the Resolutions and their enforceability may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases, and to the limitations contained in state law regarding legal remedies against the state. We express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum, choice of venue, severability or waiver provisions contained in the foregoing documents. We express no opinion as to whether interest on the Bonds is excluded from gross income for federal income tax purposes or exempt from State personal income taxes or as to any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement dated October 22, 2013, or other offering material relating to the Bonds and express no opinion with respect thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the opinion that the State has lawful authority for the issuance of the Bonds, and the Bonds constitute the valid and binding general obligations of the State payable in accordance with the Laws from the General Fund of the State. The full faith and credit of the State are pledged to the punctual payment of the principal of and interest on the Bonds, as the principal and interest become due and payable.

Sincerely,

Deputy Attorney General

For KAMALA D. HARRIS
Attorney General

Schedule A

$689,630,000
STATE OF CALIFORNIA
VARIOUS PURPOSE GENERAL OBLIGATION BONDS

Bond Act	Finance Committee	Name of Bonds (State of California)	Series Designation	Amount ($)
Higher Education Facilities Bond Act of June 1992	Higher Education Facilities Finance Committee	Higher Education Facilities Bonds	BD	105,000
Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006	Highway Safety, Traffic Reduction, Air Quality, and Port Security Committee	Highway Safety, Traffic Reduction, Air Quality, and Port Security Bonds	AE	257,420,000
Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006	Highway Safety, Traffic Reduction, Air Quality, and Port Security Committee	Highway Safety, Traffic Reduction, Air Quality, and Port Security Bonds	AF	158,325,000
Kindergarten-University Public Education Facilities Bond Act of 2004	Higher Education Facilities Finance Committee	Kindergarten-University Public Education Facilities Bonds	BF	1,910,000
Kindergarten-University Public Education Facilities Bond Act of 2006	Higher Education Facilities Finance Committee	Kindergarten-University Public Education Facilities Bonds	AM	124,045,000
Public Education Facilities Bond Act of 1996	Higher Education Facilities Finance Committee	Public Education Facilities Bonds	CK	240,000
Safe Neighborhood Parks, Clean Water, Clean Air, and Coastal Protection Bond Act of 2000 (the Villaraigosa-Keeley Act)	Safe Neighborhood Parks, Clean Water, Clean Air, and Coastal Protection (Villaraigosa-Keeley Act) Finance Committee	Safe Neighborhood Parks, Clean Water, Clean Air, and Coastal Protection Bonds	AV	11,995,000
Water Security, Clean Drinking Water, Coastal and Beach Protection Act of 2002	Water Security, Clean Drinking Water, Coastal and Beach Protection Act of 2002 Finance Committee	Water Security, Clean Drinking Water, Coastal and Beach Protection Bonds	AN	135,590,000

$234,715,000
STATE OF CALIFORNIA
GENERAL OBLIGATION BONDS
(SCHOOL FACILITIES)

Bond Act	Finance Committee	Name of Bonds (State of California)	Series Designation	Amount ($)
Kindergarten-University Public Education Facilities Bond Act of 2004	State School Building Finance Committee	Kindergarten-University Public Education Facilities Bonds	BG	36,760,000
Kindergarten-University Public Education Facilities Bond Act of 2006	State School Building Finance Committee	Kindergarten-University Public Education Facilities Bonds	AN	197,955,000

$723,145,000
STATE OF CALIFORNIA
VARIOUS PURPOSE GENERAL OBLIGATION REFUNDING BONDS

Bond Act	Finance Committee	Name of Bonds (State of California)	Series Designation	Amount ($)
1990 School Facilities Bond Act	State School Building Finance Committee	School Facilities Bonds	AG	50,000
California Clean Water, Clean Air, Safe Neighborhood Parks, and Coastal Protection Act of 2002	California Clean Water, Clean Air, Safe Neighborhood Parks, and Coastal Protection Act Finance Committee	Clean Water, Clean Air, Safe Neighborhood Parks, and Coastal Protection Bonds	AJ	1,330,000
California Clean Water, Clean Air, Safe Neighborhood Parks, and Coastal Protection Act of 2002	California Clean Water, Clean Air, Safe Neighborhood Parks, and Coastal Protection Act Finance Committee	Clean Water, Clean Air, Safe Neighborhood Parks, and Coastal Protection Bonds	AK	23,985,000
Class Size Reduction Kindergarten-University Public Education Facilities Bond Act of 1998	Higher Education Facilities Finance Committee	Class Size Reduction Kindergarten-University Public Education Facilities Bonds	DI	31,960,000
Class Size Reduction Kindergarten-University Public Education Facilities Bond Act of 1998	Higher Education Facilities Finance Committee	Class Size Reduction Kindergarten-University Public Education Facilities Bonds	DJ	15,775,000
Class Size Reduction Kindergarten-University Public Education Facilities Bond Act of 1998	Higher Education Facilities Finance Committee	Class Size Reduction Kindergarten-University Public Education Facilities Bonds	DK	18,610,000
Class Size Reduction Kindergarten-University Public Education Facilities Bond Act of 1998	State School Building Finance Committee	Class Size Reduction Kindergarten-University Public Education Facilities Bonds	DG	105,835,000

Bond Act	Finance Committee	Name of Bonds (State of California)	Series Designation	Amount ($)
Class Size Reduction Kindergarten-University Public Education Facilities Bond Act of 1998	State School Building Finance Committee	Class Size Reduction Kindergarten-University Public Education Facilities Bonds	DH	60,370,000
Clean Air and Transportation Improvement Bond Act of 1990	Transportation Improvement Finance Committee	Clean Air and Transportation Improvement Bonds	BZ	2,290,000
Clean Air and Transportation Improvement Bond Act of 1990	Transportation Improvement Finance Committee	Clean Air and Transportation Improvement Bonds	CA	1,740,000
Higher Education Facilities Bond Act of June 1990	Higher Education Facilities Finance Committee	Higher Education Facilities Bonds	BA	330,000
Higher Education Facilities Bond Act of June 1992	Higher Education Facilities Finance Committee	Higher Education Facilities Bonds	BE	360,000
Higher Education Facilities Bond Act of June 1992	Higher Education Facilities Finance Committee	Higher Education Facilities Bonds	BF	25,000
Kindergarten-University Public Education Facilities Bond Act of 2002	Higher Education Facilities Finance Committee	Kindergarten-University Public Education Facilities Bonds	BW	485,000
Kindergarten-University Public Education Facilities Bond Act of 2002	State School Building Finance Committee	Kindergarten-University Public Education Facilities Bonds	BX	14,115,000
Kindergarten-University Public Education Facilities Bond Act of 2002	State School Building Finance Committee	Kindergarten-University Public Education Facilities Bonds	BY	275,100,000
Public Education Facilities Bond Act of 1996	Higher Education Facilities Finance Committee	Public Education Facilities Bonds	CN	2,090,000
Public Education Facilities Bond Act of 1996	State School Building Finance Committee	Public Education Facilities Bonds	CL	660,000
Public Education Facilities Bond Act of 1996	State School Building Finance Committee	Public Education Facilities Bonds	CM	710,000
Safe Drinking Water, Clean Water, Watershed Protection, and Flood Protection Act	Safe Drinking Water, Clean Water, Watershed Protection, and Flood Protection Finance Committee	Safe Drinking Water, Clean Water, Watershed Protection, and Flood Protection Bonds	BF	3,705,000
Safe Drinking Water, Clean Water, Watershed Protection, and Flood Protection Act	Safe Drinking Water, Clean Water, Watershed Protection, and Flood Protection Finance Committee	Safe Drinking Water, Clean Water, Watershed Protection, and Flood Protection Bonds	BG	1,930,000
Safe Neighborhood Parks, Clean Water, Clean Air, and Coastal Protection Bond Act of 2000 (the Villaraigosa-Keeley Act)	Safe Neighborhood Parks, Clean Water, Clean Air, and Coastal Protection (Villaraigosa-Keeley Act) Finance Committee	Safe Neighborhood Parks, Clean Water, Clean Air, and Coastal Protection Bonds	AW	8,435,000

Bond Act	Finance Committee	Name of Bonds (State of California)	Series Designation	Amount ($)
Safe Neighborhood Parks, Clean Water, Clean Air, and Coastal Protection Bond Act of 2000 (the Villaraigosa-Keeley Act)	Safe Neighborhood Parks, Clean Water, Clean Air, and Coastal Protection (Villaraigosa-Keeley Act) Finance Committee	Safe Neighborhood Parks, Clean Water, Clean Air, and Coastal Protection Bonds	AX	6,255,000
Safe Neighborhood Parks, Clean Water, Clean Air, and Coastal Protection Bond Act of 2000 (the Villaraigosa-Keeley Act)	Safe Neighborhood Parks, Clean Water, Clean Air, and Coastal Protection (Villaraigosa-Keeley Act) Finance Committee	Safe Neighborhood Parks, Clean Water, Clean Air, and Coastal Protection Bonds	AY	20,210,000
Safe, Clean, Reliable Water Supply Act	Safe, Clean, Reliable Water Supply Finance Committee	Safe, Clean, Reliable Water Supply Bonds	BD	3,245,000
Safe, Clean, Reliable Water Supply Act	Safe, Clean, Reliable Water Supply Finance Committee	Safe, Clean, Reliable Water Supply Bonds	BE	3,995,000
Safe, Clean, Reliable Water Supply Act	Safe, Clean, Reliable Water Supply Finance Committee	Safe, Clean, Reliable Water Supply Bonds	BF	27,455,000
School Facilities Bond Act of 1992	State School Building Finance Committee	School Facilities Bonds	BI	500,000
Seismic Retrofit Bond Act of 1996	Seismic Retrofit Finance Committee	Seismic Retrofit Bonds	BE	7,715,000
Seismic Retrofit Bond Act of 1996	Seismic Retrofit Finance Committee	Seismic Retrofit Bonds	BF	10,055,000
Water Security, Clean Drinking Water, Coastal and Beach Protection Act of 2002	Water Security, Clean Drinking Water, Coastal and Beach Protection Act of 2002 Finance Committee	Water Security, Clean Drinking Water, Coastal and Beach Protection Bonds	AO	3,040,000
Water Security, Clean Drinking Water, Coastal and Beach Protection Act of 2002	Water Security, Clean Drinking Water, Coastal and Beach Protection Act of 2002 Finance Committee	Water Security, Clean Drinking Water, Coastal and Beach Protection Bonds	AP	70,785,000

$450,000,000
STATE OF CALIFORNIA
GENERAL OBLIGATION BONDS
(MANDATORY PUT BONDS)

Bond Act	Finance Committee	Name of Bonds (State of California)	Series Designation	Amount ($)
Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006	Highway Safety, Traffic Reduction, Air Quality, and Port Security Committee	Highway Safety, Traffic Reduction, Air Quality, and Port Security Bonds	2013A	225,000,000
Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006	Highway Safety, Traffic Reduction, Air Quality, and Port Security Committee	Highway Safety, Traffic Reduction, Air Quality, and Port Security Bonds	2013B	225,000,000

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APPENDIX E

LETTERS FROM CERTAIN UNDERWRITERS

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J.P.Morgan

October 1, 2013

Ms. Katie Carroll
Deputy Treasurer
Office of the Treasurer of the State of California
915 Capitol Mall, Room 110
Sacramento, CA 95814

RE: State of California October 2013 General Obligation Bonds (the “Bonds”)

Dear Ms. Carroll:

J.P. Morgan Securities LLC ("JPMS"), one of the Underwriters of the Bonds, has entered into negotiated dealer agreements (each, a "Dealer Agreement") with each of UBS Financial Services Inc. (“UBSFS”) and Charles Schwab & Co., Inc. ("CS&Co.") for the retail distribution of certain securities offerings at the original issue prices. Pursuant to each Dealer Agreement (if applicable to this transaction), each of UBSFS and CS&Co. will purchase Bonds from JPMS at the original issue price less a negotiated portion of the selling concession applicable to any Bonds that such firm sells.

J.P. MORGAN SECURITIES LLC

DE LA ROSA & CO.
INVESTMENT BANKERS

October 8, 2013

Ms. Katie Carroll
Deputy Treasurer
Office of the Treasurer of the State of California
915 Capitol Mall, Room 110
Sacramento, California 95814

Re: State of California, Various Purpose General Obligation Bonds, Various Purpose General Obligation Refunding Bonds, General Obligation Bonds (School Facilities), and Various Purpose General Obligation Bonds (Mandatory Put Bonds) ("the Bonds")

Dear Ms. Carroll:

De La Rosa & Co., one of the Underwriters of the Bonds, has entered into a separate agreement with Credit Suisse Securities USA LLC for retail distribution of certain municipal securities offerings, at the original issue prices. Pursuant to said agreements, if applicable to the Bonds, De La Rosa & Co. will share a portion of its underwriting compensation with respect to the Bonds, with Credit Suisse Securities USA LLC.

De La Rosa & Co.

ACADEMY SECURITIES

Oct 11, 2013

Ms. Katie Carroll
Assistant Deputy Treasurer
915 Capitol Mall C-15
Sacramento, CA 95814

Re: State of California October 2013 GO Sale

Dear Ms. Carroll:

Academy Securities Inc, Co-Managing Underwriter of the State of California October 2013 GO Sale, intends to enter into distribution agreements (the "Distribution Agreements") with Cor Capital Markets, E*Trade Securities, LLC, Ladenburg Thalman & Co, Ridgeway & Conger, Inc, UBS Financial Services, National Alliance Securities, World Equity Group Inc., and JHS Capital Advisors Inc. for the retail distribution of certain municipal securities offerings, at the original issue prices. Pursuant to these Distribution Agreements (if applicable for this transaction), Academy Securities, Inc. may share a portion of its underwriting compensation with these firms.

ACADEMY SECURITIES, INC.

October 7, 2013

Ms. Katie Carroll
Assistant Deputy Treasurer
California State Treasurer's Office
915 Capitol Mall, Room 110
Sacramento, California 95814

RE: October Sale of Various Purpose Tax-Exempt General Obligation Bonds

Dear Ms. Carroll:

Backstrom McCarley Berry & Co., LLC ("BMcB"), one of the Co-Managing underwriters of the State of California Various PurposeTax-Exempt General Obligation Bonds has entered into a Broker/Dealer Agreement with Crowell, Weedon & Co., for the purpose of selling and distribution of certain securities offerings, including the State of California General Obligation Bonds, at the original issue price. Pursuant to our distribution agreement Crowell, Weedon & Co, will purchase Bonds offered during the retail order period from BMcB at the original issue price less a negotiated portion of the selling concession applicable to any Bonds that such firm sells.

We very much appreciate the opportunity to serve the State on this transaction. We would be happy to discuss these agreements with you if you should have any questions.

Backstrom McCarley Berry & Co., LLC

By: Don Backstrom
Managing Director & Principal

Cc: Tim Aguirre
Jean Shih
Diane Quan

115 Sansome Street, Mezzanine A ◊ San Francisco, CA 94104 ◊ Tel: 415-392-5505 ◊ Fax: 415-392-5276

Loop Capital

12100 Wilshire Blvd., Suite 430
Los Angeles, CA 90025
T 310.442.1200 **F** 310.442.1208
Toll Free 888.294.8898

www.loopcapital.com

October 9, 2013

Ms. Katie Carroll
Assistant Deputy Treasurer
Office of the Treasurer of the State of California
915 Capitol Mall, Room 110
Sacramento, CA 95814

Re: State of California October 2013 General Obligation Bond Sale (the "Bonds")

Dear Ms. Carroll:

Loop Capital Markets LLC ("LCM"), one of the Underwriters of the Bonds, has entered into a distribution agreement (the "Distribution Agreement") with Deutsche Bank Securities Inc. ("DBS") for the retail distribution of certain securities offerings at the original issue prices. Pursuant to the Distribution Agreement (if applicable to this transaction), DBS will purchase Bonds from LCM at the original issue prices less a negotiated portion of the selling concession applicable to any Bonds that such firm sells.

Sincerely,

Loop Capital Markets LLC

Mitsubishi UFJ Securities

400 California Street, 11th Floor
San Francisco, CA 94104

October 4, 2013

Ms. Katie Carroll
Deputy Treasurer
Office of the Treasurer of the State of California
915 Capitol Mall, Room 110
Sacramento, CA 95814

Dear Ms. Carroll:

Mitsubishi UFJ Securities (USA), Inc. (“MUS”), a co-managing underwriter on the State of California’s pending tax-exempt General Obligation Bonds (“Bonds”), has agreed with UnionBanc Investment Services LLC (“UBIS”) that UBIS may act as a distribution participant with respect to certain municipal securities offerings, including the Bonds. Pursuant to this agreement, MUS will share a portion of its underwriting compensation with respect to the Bonds.

Sincerely,

Mitsubishi UFJ Securities (USA), Inc.

Morgan Stanley

October 9, 2013

Ms. Katie Carroll
Assistant Deputy Treasurer
Office of the Treasurer of the State of California
915 Capitol Mall, Room 110
Sacramento, CA 95814

RE: State of California Various Purpose General Obligation Bonds, October 2013 Sale

Dear Ms. Carroll:

Morgan Stanley & Co. LLC is providing the following language for inclusion in the Official Statement.

Morgan Stanley, parent company of Morgan Stanley & Co. LLC, an underwriter of the Bonds, has entered into a retail distribution arrangement with its affiliate 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.

Morgan Stanley & Co. LLC

WELLS FARGO SECURITIES

October 4, 2013

Ms. Katie Carroll
Assistant Deputy Treasurer
Office of the Treasurer of the State of California
915 Capitol Mall, Room 110
Sacramento, CA 95814

Re: October 2013 State of California Various Purpose General Obligation Bonds (the “Bonds”)

Dear Ms. Carroll:

Wells Fargo Bank, National Association ("WFBNA”), one of the underwriters of the Bonds, has entered into an agreement (the "Distribution Agreement") with its affiliate, Wells Fargo Advisors, LLC ("WFA"), for the distribution of certain municipal securities offerings, including the Bonds. Pursuant to the Distribution Agreement, WFBNA will share a portion of its underwriting compensation, as applicable, with respect to the Bonds with WFA. WFBNA also utilizes the distribution capabilities of its affiliates, Wells Fargo Securities, LLC (“WFSLLC”) and Wells Fargo Institutional Securities, LLC (“WFIS”), for the distribution of municipal securities offerings, including the Bonds. In connection with utilizing the distribution capabilities of WFSLLC, WFBNA pays a portion of WFSLLC’s expenses based on its municipal securities transactions. WFBNA, WFSLLC, WFIS, and WFA are each wholly-owned subsidiaries of Wells Fargo & Company.

Wells Fargo Securities is the trade name for certain capital markets and investment banking services of Wells Fargo & Company and its subsidiaries, including Wells Fargo Bank, National Association.

Wells Fargo Bank, National Association

M·R·BEAL & COMPANY
Investment Bankers & Financial Advisors

October 8, 2013

Ms. Katie Carroll
Deputy Treasurer
State of California
State Treasurers Office
915 Capitol Mall
Sacramento, CA 95814

Re: **Distribution Agreement for**
STATE OF CALIFORNIA VARIOUS PURPOSE GENERAL OBLIGATION BONDS (THE "BONDS")

Dear Ms. Carroll:

M.R. Beal & Company, a Selling Group member for the Bonds, has entered into an agreement (the "Distribution Agreement") with TD Ameritrade, Inc. for the retail distribution of certain municipal securities offerings at the original issue prices. Pursuant to the Distribution Agreement (as applicable for the Bonds), M.R. Beal & Company may share a portion of its underlying compensation with respect to the Bonds with TD Ameritrade, Inc.

M.R. Beal & Company

October 10, 2013

Sent Via: Email

A Service Disabled Veterans Business Enterprise

Ms. Katie Carroll
Deputy Treasurer
State Treasurer's Office

Dear Ms. Carroll,

This letter is to notify you and your office that the Mischler Financial Group has a distribution agreement with Northern Trust Securities, Inc. for the upcoming State of California October 2013 GO Bonds.
The contact for you to use at Northern for this transaction is as follows:

Northern Trust Securities, Inc.
Jack G. Beal
Vice President
312-444-3708
JGB1@ntrs.com

Please let us know if you need any additional information at this time. We look forward to being of assistance to the State for this upcoming bond issue as well as future bond issues.

Thank you,

Doyle Holmes
President

1111 Bayside Drive
Suite 100
Corona del Mar, CA 92625
Tel (949) 720-0640
Tel (800) 820-0640
Fax (949) 720-0229
www.mischlerfinancial.com

APPENDIX F

ADDITIONAL INFORMATION RELATING TO THE SCHOOL FACILITIES BONDS

Proceeds of the General Obligation Bonds (School Facilities) (the "School Facilities Bonds") will be used to finance the construction and modernization of local public school facilities and pay the cost of issuance of the School Facilities Bonds. Proceeds of the School Facilities Bonds are allocated by the State Allocation Board (the "State Allocation Board") to various school districts for specified projects in accordance with the Kindergarten-University Public Education Facilities Bond Act of 2004 and the Kindergarten-University Public Education Facilities Bond Act of 2006. To facilitate the State Allocation Board's allocation process for these projects, the State issued general obligation commercial paper notes ("CP Notes") on October 9, 2013 and October 10, 2013 in an aggregate principal amount of $246,010,000. All such CP Notes will be repaid between November 7, 2013 and January 8, 2014. As the CP Notes were issued as a short-term financing mechanism for allocation purposes, proceeds of the School Facilities Bonds will be used to provide long-term financing for the school districts and projects described below.

The following table sets forth the school districts (collectively, the "School Districts") to which proceeds of the School Facilities Bonds have been allocated, the respective amount of bond proceeds allocated for project(s) within each School District, each School District's respective enrollment and the number of students within each School District eligible for free and reduced price meals:

Name of School District	County	Expected School Facilities Bond Proceeds(1)	October 2012 Enrollment (K-12)(2)	Percentage of October 2012 Enrollment Eligible Free and Reduced Price Meals (K-12)(2)
Alhambra Unified	Los Angeles	$ 449,968.00	18,076	72.80%
Alisal Union	Monterey	4,715,194.00	8,748	88.51
Anaheim City	Orange	3,867,214.20	19,126	87.20
Baldwin Park Unified	Los Angeles	2,399,802.00	18,845	86.09
Belmont-Redwood Shores Elementary	San Mateo	68,381.00	3,607	7.76
Buckeye Union Elementary	El Dorado	4,244,454.00	5,099	13.65
Castro Valley Unified	Alameda	1,279,208.00	9,210	19.27
Chico Unified	Butte	3,555,972.00	13,871	48.63
Clovis Unified	Fresno	3,231,557.00	39,894	38.16
Denair Unified	Stanislaus	1,500.00	1,524	43.70
Dinuba Unified	Tulare	2,525,994.00	6,241	74.58
Dry Creek Joint Elementary	Placer	56,619.00	6,888	35.29
El Dorado Union High	El Dorado	210,775.00	6,873	18.89
El Monte City	Los Angeles	10,627,358.00	9,304	88.66
Elk Grove Unified	Sacramento	750.00	62,137	55.10
Farmersville Unified	Tulare	2,346,040.00	2,646	90.12
Fort Bragg Unified	Mendocino	649,126.00	1,917	65.42
Fresno Unified	Fresno	6,272,413.00	73,882	83.87
Garden Grove Unified	Orange	41,029,297.00	47,599	71.48
Grossmont Union High	San Diego	3,107,742.89	22,965	44.41
Guadalupe Union Elementary	Santa Barbara	3,093,362.00	1,182	90.15
Hesperia Unified	San Bernardino	3,762,474.20	23,448	72.12
Irvine Unified	Orange	715,650.00	29,072	13.08

Name of School District	County	Expected School Facilities Bond Proceeds[1]	October 2012 Enrollment (K-12)[2]	Percentage of October 2012 Enrollment Eligible Free and Reduced Price Meals (K-12)[2]
Kern High	Kern	1,437,544.00	37,070	58.81
Live Oak Elementary	Santa Cruz	392,799.00	2,118	58.50
Livermore Valley Joint Unified	Alameda	20,761.00	12,629	25.92
Long Beach Unified	Los Angeles	3,000,000.00	82,256	64.78
Los Angeles Unified	Los Angeles	41,730,232.00	655,494	74.99
Lynwood Unified	Los Angeles	15,970,402.00	15,029	92.09
Manteca Unified	San Joaquin	2,256,033.00	23,235	59.54
Murrieta Valley Unified	Riverside	727,200.00	22,929	33.46
Oak Valley Union Elementary	Tulare	84,720.00	448	78.79
Oakland Unified	Alameda	712,643.00	46,486	73.29
Pasadena Unified	Los Angeles	3,867,545.00	19,540	64.89
Perris Union High	Riverside	14,180,775.00	10,567	67.99
Piedmont City Unified	Alameda	855,015.00	2,605	0.35
Placentia-Yorba Linda Unified	Orange	2,314,047.00	25,622	27.13
Pomona Unified	Los Angeles	1,904,016.00	27,186	80.79
Redondo Beach Unified	Los Angeles	896,260.00	8,967	20.34
Riverside Unified	Riverside	4,359,240.00	42,560	64.18
Ross Valley	Marin	290,887.00	2,230	12.20
Rowland Unified	Los Angeles	422,913.00	15,501	66.79
Sacramento City Unified	Sacramento	996,507.00	47,616	72.04
San Francisco Unified	San Francisco	3,094,097.60	56,970	57.42
Santa Ana Unified	Orange	14,932,336.00	57,410	83.56
Santa Clara County Office of Education	Santa Clara	7,827,368.00	8,801	58.18
Santee Elementary	San Diego	66,870.00	6,418	40.46
Shiloh Elementary	Stanislaus	591,739.00	143	79.02
Simi Valley Unified	Ventura	1,953,259.00	18,937	28.30
Tracy Joint Unified	San Joaquin	5,341,167.00	17,405	44.57
Twin Rivers Unified	Sacramento	510,291.20	31,420	75.82
Walnut Valley Unified	Los Angeles	3,474,941.00	14,661	15.36
West Contra Costa Unified	Contra Costa	10,466,812.90	30,398	68.67
	Total:	$242,889,271.99		

(1) Reflects funding for one or more projects within the School District.
(2) California Department of Education, Analysis, Measurement, & Accountability Reporting Division, Data Reporting Office, October 2012 data collection, data certified as of May 24, 2013 (v.2), 2012-13 California Longitudinal Pupil Achievement Data System Fall 1.

The State Allocation Board has approved each project and encumbered bond authorization for such project. Except for those School Districts receiving design and/or site grant awards, as described below, each of the School Districts has completed plans and specifications for its project(s), received written approval from the Division of the State Architect (the "Division of State Architect") of its construction plans, and certified that it has the required local share funding for the project cost and approval of the project site and plans by the California Department of Education (the "Department of Education"). A few School Districts are receiving design and/or site grant awards, which precede approval of the projects by the Division of the State Architect. Each School District has also satisfied bi-annual certification requirements.

Each School District will submit a fund release authorization within 90 days of the allocation date in order to receive the proceeds of the School Facilities Bonds. If a School District does not submit a fund release authorization on a timely basis and such failure is the second occurrence of noncompliance with the certification and release requirements of the school facilities programs, funding for the School District's project will be rescinded and the project will lose its priority funding status, which may result in the loss of all State funding for the project. In the event of such rescission, funding previously allocated to a School District's project will be aggregated with other available funding and reallocated to the next group of fully reviewed and approved projects. These new projects may or may not be within the jurisdiction of the School Districts identified above. Through September 27, 2013, 99 percent of the school districts that received allocations from the last six issues of the State's general obligation bonds for school facilities programs have satisfied the requirements for release of funds following its receipt of an allocation.

A majority of the students attending the School Districts for which the School Facilities Bonds are being issued are expected to be eligible to participate in the National School Lunch Program. The Department of Education maintains data pertaining to students who are eligible for Free and Reduced Price Meals. Such data is collected annually and available through the Department of Education website at: http://www.cde.ca.gov/ds/sd/sd/filessp.asp.

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APPENDIX G

AUDITED BASIC FINANCIAL STATEMENTS OF THE STATE OF CALIFORNIA FOR THE YEAR ENDED JUNE 30, 2012

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State of California

Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2012

Controller *John Chiang*

California State Controller's Office

STATE OF CALIFORNIA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Year Ended
June 30, 2012

Prepared by
The Office of the State Controller

JOHN CHIANG
California State Controller

Photographs by Robert Holmes/CalTour, Tom Myers, and Long Beach Area Convention & Visitors Bureau (excluding the photograph of John Chiang).

Contents

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JOHN CHIANG

California State Controller

JOHN CHIANG

California State Controller

March 26, 2013

To the Citizens, Governor, and Members
of the Legislature of the State of California:

I am pleased to submit the State of California Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2012. This report meets the requirements of Government Code section 12460 for an annual report prepared strictly in accordance with accounting principles generally accepted in the United States of America (GAAP) and contains information to help readers gain a reasonable understanding of the State's financial activities.

In fiscal year 2011-12, California made substantial progress toward recovering from the economic challenges of the recession despite some momentum lost in November and December due to uncertainties about federal fiscal policy. The State's general revenues remained almost static from the prior year, and overall expenses for the State's governmental activities decreased by $4.2 billion. Governmental activities include most services and expenses normally associated with state government, such as health and human services, education, business and transportation, correctional programs, and general government.

The State's job market improved significantly, and the jobless rate dropped by nearly a full percentage point. The housing market reported an increase of 8.5% in sales of existing single-family homes, and home prices were up 8.0%. The number of foreclosures initiated in the quarter ended June 30, 2012 was down by nearly 3.7% from the same period in the prior year. New housing construction permits advanced by 6.9%, and 27,000 construction jobs were created.

Similar signs of modest recovery appeared in other sectors of California's economy. The volume of international trade passing through the State's ports increased 7.7%, personal income expanded by 3.8%, and the gains in jobs and income drove improvement in consumer spending. Taxable sales were up 8.2% and auto sales in the quarter ending June 30, 2012, were 24.3% above the same period in the prior year.

Although California's economy continues to improve, the State still faces budgetary and cash shortfalls in the current year. However, the Governor's proposed 2013-14 Budget initiates a multi-year plan that is balanced and focuses on achieving long-term fiscal stability.

Introduction to the Report

Responsibility for the accuracy, completeness, and fairness of data presented in the CAFR, including all disclosures, rests with the State. To the best of our knowledge and belief, the enclosed data are accurate in all material respects and are reported in a manner that fairly presents the financial position and the operations of the primary government and its component units.

State statutes require an annual audit of the basic financial statements of the State. To meet this requirement, the State Auditor has examined the accompanying financial statements in accordance with auditing standards generally accepted in the United States of America and

Government Auditing Standards issued by the Comptroller General of the United States. The auditor's report on the basic financial statements and the combining and individual fund statements and schedules is included in the CAFR.

The State of California is also required to undergo an annual single audit in conformity with the provisions of the United States Office of Management and Budget's (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. In conducting the engagement, the State Auditor used auditing standards generally accepted in the United States of America and Government Auditing Standards issued by the Comptroller General of the United States. Information related to this single audit—including a schedule of federal assistance, the independent auditor's report on compliance with requirements applicable to each major program and on internal controls over compliance in accordance with OMB Circular A-133, and a schedule of findings and questioned costs—is included in a separately issued report.

The CAFR contains three sections: Introductory, Financial, and Statistical. The Introductory Section is designed to provide the background and context that readers need to benefit fully from the information presented in the Financial Section. The Financial Section contains the independent auditor's report, management's discussion and analysis, the basic financial statements, the required supplementary information, the combining and individual fund statements, and the budgetary comparison schedule for nonmajor governmental cost funds. The Statistical Section provides a history of selected financial and demographic information.

The State's Management's Discussion and Analysis (MD&A) immediately follows the independent auditor's report and contains an introduction, overview, and analysis of the financial statements. Our MD&A provides a narrative introduction to the detailed financial statements and notes contained in the CAFR.

Profile of the Government

Reporting Entity

The financial reporting entity of the State includes all of the funds of the primary government and of its component units. Component units are legally separate entities for which the primary government is financially accountable. Blended component units, although legally separate entities, are, in substance, part of the primary government's operations and are included as part of the primary government. Accordingly, the building authorities are reported in the capital projects funds of the primary government. The lease agreements between the building authorities and the primary government, amounting to $346 million, have been eliminated from the balance sheet. Instead, only the underlying capital assets and the debt used to acquire them are reported in the government-wide statements. The Golden State Tobacco Securitization Corporation is reported as a special revenue fund of the primary government.

Discretely presented component units are reported separately in the government-wide financial statements to emphasize that they are legally separate from the primary government and to differentiate their financial position and results of operations from those of the primary government. Additional information on the reporting entity is included in Note 1, Summary of Significant Accounting Policies.

Budgetary Controls

The State Legislature prepares an annual budget that contains estimates of revenues and expenditures for the ensuing fiscal year. This budget is the result of negotiations between the Governor and the Legislature. Throughout the fiscal year, adjustments in the form of budget revisions, executive orders, and financial legislation agreed to by the Governor and the Legislature are made to the budget. The State Controller is statutorily responsible for control over revenues due the primary government and for expenditures of each appropriation contained in the budget. Budgeted appropriations are the expenditure authorizations that allow state agencies to purchase or create liabilities for goods and services.

The State's accounting system provides the State Controller's Office with a centrally-controlled record system to fully account for each budgeted appropriation, including its unexpended balance, and for all cash receipts and disbursements. The accounting system is decentralized, meaning the detail of each control account is maintained by each state agency. During the fiscal year, the control accounts and the agency accounts are maintained and reconciled on a cash basis. At the end of the fiscal year, each agency prepares annual accrual reports for receivables and payables. The State Controller's Office combines its control account balances with the agency accrual reports to prepare California's Budgetary/Legal Basis Annual Report and the Budgetary/Legal Basis Annual Report Supplement. State laws and regulations that, in some cases, do not fully agree with GAAP govern the methods of accounting for expenditures and revenues in these reports.

The information in the CAFR represents a consolidation of the amounts in the Budgetary/Legal Basis Annual Report and adjustments to the account balances to conform to GAAP. Additional information on the budgetary basis of accounting can be found in Note 2, Budgetary and Legal Compliance, and in the Required Supplementary Information section that follows the Notes to the Financial Statements.

Internal Controls

An internal control structure has been designed to ensure that the assets of the government are protected from loss, theft, or misuse, and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in accordance with legal requirements and GAAP. The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived, and (2) the valuation of costs and benefits requires estimates and judgments by management. In addition, the government maintains extensive budgetary controls. The objective of these controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the Legislature and Governor.

Financial Condition

Economic Outlook

California's economy continued to improve from July 1 through December 31, 2012. Several factors have contributed to a strengthening in economic fundamentals, including stabilization in foreign economies, record low interest rates, and a general improvement in business and household finances. The State added more than 82,000 non-farm jobs, contributing to a job growth that exceeded the national average for the first six months of the fiscal year. These job gains drove the unemployment rate down from 10.7% at the beginning of the fiscal year to 9.8% by December 2012. Personal income increased to an annualized rate of $1.7 trillion, more than any other state, and contributed to growth in consumer spending, including an increase of more than 25% in auto sales. Similar gains in the housing market were reflected in declines in the number of foreclosures, increased sales for new and existing homes, price increases, new building activity, and more construction jobs. Other successful key sectors, including technology, agriculture, tourism, and international trade continue to support the State's economic improvement.

Budget Outlook

2012-13 Fiscal Year

California's 2012-13 Budget Act was enacted on June 27, 2012, with $16.6 billion in actions to solve a General Fund gap between revenues and expenditures. Expenditure-related solutions include ongoing reductions in health and social services, offsetting General Fund obligations with assets of former redevelopment agencies, and suspending certain state mandates for three years. California voters approved Proposition 30 in November 2012, which temporarily increases the personal income taxes on California's wealthiest taxpayers, and increases the state sales tax by 0.25% for four years, resulting in an estimated $8.5 billion in proposed revenue through 2012-13. The Budget also included $2.5 billion in loan repayment extensions and transfers, and loans from special funds. The proposed 2013-14 Governor's Budget provides revised estimates for the 2012-13 fiscal year, and, despite the decrease in revenue and increase in expenditures, the 2012-13 Budget is projected to eliminate the $1.6 billion deficit that remained at the end of the 2011-12 fiscal year, and will maintain a reserve of $0.2 billion at the end of fiscal year 2012-13.

2013-14 Fiscal Year

The Governor released his proposed 2013-14 Budget on January 10, 2013, which initiates a multi-year plan that is balanced, maintains a $1.0 billion reserve, and pays down budgetary debt from past years. This is the first time in more than a decade that future spending is expected to stay within available resources. The General Fund is estimated to begin with a surplus of $0.8 billion, rather than a deficit. General Fund revenues and transfers are projected to be $98.5 billion, including increased revenue from personal, corporate, and sales use taxes. Expenditures are projected to be approximately $97.7 billion, including $41.1 billion for K-12 funding and $11.1 billion for higher education programs. This is the first time since the economic downturn that the budget has not implemented education funding cuts. Other expenditures include allocations to Medi-Cal, social services programs, welfare-to-work services, programs for low-income families with children, persons with disabilities, and county public assistance programs. According to the Legislative Analyst's Office, California's nonpartisan fiscal and policy advisor, the Governor's budget projections for fiscal year 2013-14 reflect significant improvement in the State's finances.

Awards and Acknowledgments

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the State of California for its comprehensive annual financial report for the fiscal year ended June 30, 2011. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and

efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only.

This CAFR could not have been prepared without the assistance and cooperation of all state agencies and universities. We wish to thank the State Auditor and her staff for their audit of the financial statements contained in this report. I am also grateful to the members of my staff for their dedicated efforts and professionalism.

Sincerely,

Original signed by:

JOHN CHIANG
California State Controller

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Certificate of Achievement for Excellence in Financial Reporting

Presented to

State of California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2011

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

Christopher P Morrill
President

Jeffrey R. Emer
Executive Director

Principal Officials of the State of California

Executive Branch

Edmund G. Brown, Jr.
Governor

Gavin Newsom
Lieutenant Governor

John Chiang
State Controller

Kamala D. Harris
Attorney General

Bill Lockyer
State Treasurer

Debra Bowen
Secretary of State

Tom Torlakson
Superintendent of Public Instruction

Dave Jones
Insurance Commissioner

Board of Equalization
Betty T. Yee, Member, First District
George Runner, Member, Second District
Michelle Steel, Member, Third District
Jerome E. Horton, Member, Fourth District

Legislative Branch

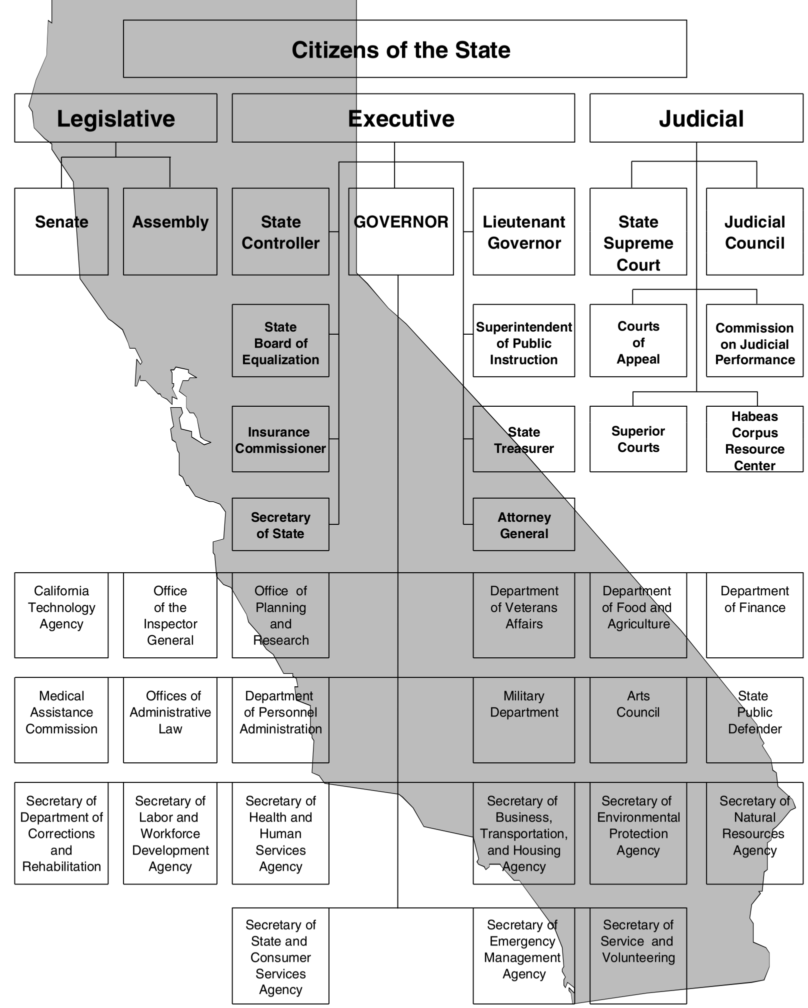
Darrell Steinberg
President pro Tempore, Senate

John A. Pérez
Speaker of the Assembly

Judicial Branch

Tani Cantil-Sakauye
Chief Justice, State Supreme Court

Organization Chart of the State of California



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Financial Section

California State Auditor

Elaine M. Howle State Auditor
Doug Cordiner Chief Deputy

Independent Auditor's Report

THE GOVERNOR AND THE LEGISLATURE OF THE
STATE OF CALIFORNIA

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of California, as of and for the year ended June 30, 2012, which collectively comprise the State of California's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the State of California's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the following significant amounts in the financial statements:

Government-wide Financial Statements

- Certain enterprise funds that, in the aggregate, represent 87 percent and 38 percent, respectively, of the assets and revenues of the business-type activities.
- The University of California, State Compensation Insurance Fund, California Housing Finance Agency, Public Employees' Benefits, and certain other funds that, in the aggregate, represent over 99 percent of the assets and revenues of the discretely presented component units.

Fund Financial Statements

- The following major enterprise funds: Electric Power fund, Water Resources fund, Public Building Construction fund, State Lottery fund, and California State University fund.
- Certain nonmajor enterprise funds that represent 92 percent and 75 percent, respectively, of the assets and revenues of the nonmajor enterprise funds.
- The funds of the Public Employees' Retirement System and the State Teachers' Retirement System, and certain other funds that, in the aggregate, represent 89 percent and 44 percent, respectively, of the assets and additions of the fiduciary funds and similar component units.
- The discretely presented component units noted above.

Those financial statements were audited by other auditors whose reports have been furnished to us, and our opinions, insofar as they relate to the amounts included for those funds and entities, are based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence

555 Capitol Mall, Suite 300 Sacramento, CA 95814 916.445.0255 916.327.0019 fax www.auditor.ca.gov

supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions. In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of California, as of June 30, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we will issue a separate report on our consideration of the State's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United State of America require that a discussion and analysis by management, schedule of funding progress, infrastructure information, budgetary comparison information, reconciliation of budgetary and GAAP-basis fund balances, and related notes be presented to supplement the basic financial statements. This supplementary information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We and the other auditors 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 the 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.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the State of California's basic financial statements. The introductory section, combining financial statements, and statistical section listed in the accompanying table of contents are presented for the purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from, and relates directly to the underlying accounting and other records used to prepare the financial statements. The combining financial statements have been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the

United States of America by us and other auditors. In our opinion, based on our audit, the procedures as described previously, and the reports of other auditors, the combining financial statements are fairly stated in all material respects in relation to the basic financial statements as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

CALIFORNIA STATE AUDITOR

JOHN F. COLLINS II, CPA
Deputy State Auditor

March 15, 2013

Management's Discussion and Analysis

The following Management's Discussion and Analysis is a required supplement to the State of California's financial statements. It describes and analyzes the financial position of the State, providing an overview of the State's activities for the year ended June 30, 2012. We encourage readers to consider the information we present here in conjunction with the information presented in the Controller's letter of transmittal at the front of this report and in the State's financial statements and notes, which follow this section.

Financial Highlights – Primary Government

Government-wide Highlights

During the 2011-12 fiscal year, California continued to show signs of slow but steady fiscal recovery. The State's general revenues remained almost static, decreasing by only $297 million, (0.3%) from the prior year. Expenses for the State's governmental activities also decreased, but still exceeded revenues received resulting in a $8.0 billion decrease in governmental activities' net assets. Total revenues and transfers for the State's business-type activities surpassed expenses by $1.1 billion in fiscal year 2011-12. Expenses that exceeded revenues and increased long-term obligations resulted in an 81.4% decrease in the total net assets for governmental and business-type activities from the 2010-11 fiscal year.

Net Assets – The primary government's net assets as of June 30, 2012 were a negative $15.5 billion. After the total net assets are reduced by $82.3 billion for investment in capital assets (net of related debt) and by $29.4 billion for restricted net assets, the resulting unrestricted net assets totaled a negative $127.2 billion. Restricted net assets are dedicated for specified uses and are not available to fund current activities. Almost half of the negative $127.2 billion consists of $57.5 billion in outstanding bonded debt issued to build capital assets for school districts and other local governmental entities. The bonded debt reduces the unrestricted net assets; however, local governments, not the State, record the capital assets that would offset this reduction.

Change in Net Assets – The primary government's total net assets decreased by $6.9 billion (81.4%) during the year ended June 30, 2012. Net assets of governmental activities decreased by $8.0 billion (78.1%), while net assets of business-type activities increased by $1.1 billion (62.0%).

Fund Highlights

Governmental Funds – A new fund, Environmental and Natural Resources, was added to the list of ***major governmental funds***. This fund was previously reported as a nonmajor governmental fund but as of this year it met the threshold for a major fund in accordance with GASB Statement No. 34. Additional information on major governmental funds and this fund specifically can be found in Note 1B in the notes to the basic financial statements. As of June 30, 2012, the primary government's governmental funds reported a combined ending fund balance of $3.8 billion, a decrease of $7.2 billion from the prior fiscal year. The unrestricted fund balance, comprised of committed, assigned, and unassigned balances, was negative $21.0 billion. The Nonspendable and restricted fund balances were $7.6 million and $24.9 billion, respectively.

Proprietary Funds – As of June 30, 2012, the primary government's proprietary funds reported combined ending net assets of $3.3 billion, an increase of $1.0 billion from the prior fiscal year. After the total net assets are reduced by $1.7 billion for investment in capital assets (net of related debt), expendable restrictions of $4.6 billion, and nonexpendable restrictions of $22 million, the unrestricted net assets totaled a negative $3.0 billion.

Noncurrent Assets and Liabilities

As of June 30, 2012, the primary government's noncurrent assets totaled $139.3 billion, of which $112.5 billion is related to capital assets. State highway infrastructure assets of $62.5 billion represent the largest portion of the State's capital assets.

The primary government's noncurrent liabilities totaled $162.7 billion, which consists of $79.9 billion in general obligation bonds, $30.8 billion in revenue bonds, and $52.0 billion in all other noncurrent liabilities. During the 2011-12 fiscal year, the primary government's noncurrent liabilities increased by $4.6 billion (2.9%) over the prior fiscal year. This increase was primarily the result of a $3.0 billion increase in net other postemployment benefits obligations, an increase of $1.6 billion and $1.3 billion for both general and revenue bonds payable respectively, a decrease of $980 million for loans payable, and a decrease of $1.4 billion for certificates of participation, commercial paper, and other borrowings.

Overview of the Financial Statements

This discussion and analysis is an introduction to the section presenting the State's basic financial statements, which includes four components: (1) government-wide financial statements, (2) fund financial statements, (3) discretely presented component units financial statements, and (4) notes to the financial statements. This report also contains required supplementary information and combining financial statements and schedules.

Government-wide Financial Statements

Government-wide financial statements are designed to provide readers with a broad overview of the State's finances. The government-wide financial statements do not include fiduciary programs and activities of the primary government and component units because fiduciary resources are not available to support state programs.

To help readers assess the State's economic condition at the end of the fiscal year, the statements provide both short-term and long-term information about the State's financial position. These statements are prepared using the economic resources measurement focus and the accrual basis of accounting, similar to methods used by most businesses. These statements take into account all revenues and expenses connected with the fiscal year, regardless of when the State received or paid the cash. The government-wide financial statements include two statements: the Statement of Net Assets and the Statement of Activities.

- The *Statement of Net Assets* presents all of the State's assets and liabilities and reports the difference between the two as net assets. Over time, increases or decreases in net assets indicate whether the financial position of the State is improving or deteriorating.

- The *Statement of Activities* presents information showing how the State's net assets changed during the most recent fiscal year. The State reports changes in net assets as soon as the event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, this statement reports revenues and expenses for some items that will result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave). This statement also presents a comparison between direct expenses and program revenues for each function of the State.

The government-wide financial statements separate into different columns the three types of state programs and activities: governmental activities, business-type activities, and component units.

- *Governmental activities* are mostly supported by taxes, such as personal income and sales and use taxes, and intergovernmental revenues, primarily federal grants. Most services and expenses normally associated with state government fall into this activity category, including health and human services, education (public kindergarten through 12th grade [K-12] schools and institutions of higher education), business and transportation, correctional programs, general government, resources, state and consumer services, and interest on long-term debt.

- *Business-type activities* typically recover all or a significant portion of their costs through user fees and charges to external users of goods and services. The business-type activities of the State of California include providing unemployment insurance programs, providing housing loans to California veterans, providing water to local water districts, providing building aid to school districts, providing services to California State University students, leasing public assets, selling California State Lottery tickets, and selling electric power. These activities are carried out with minimal financial assistance from the governmental activities or general revenues of the State.

- *Component units* are organizations that are legally separate from the State, but are at the same time related to the State financially (i.e., the State is financially accountable for them) or the nature of their relationship with the State is so significant that their exclusion would cause the State's financial statements to be misleading or incomplete. The State's financial statements include the information for blended, fiduciary, and discretely presented component units.

  - *Blended component units*, although legally separate entities, are in substance a part of the primary government's operations. Therefore, for reporting purposes, the State integrates data from blended component units into the appropriate funds. The Golden State Tobacco Securitization Corporation and certain building authorities that are blended component units of the State are included in the governmental activities.

  - *Fiduciary component units* are legally separate from the primary government but, due to their fiduciary nature, are included with the primary government's fiduciary funds. The Public Employees' Retirement System and the State Teachers' Retirement System are fiduciary component units that are included with the State's pension and other employee benefit trust funds, which are not included in the government-wide financial statements.

  - *Discretely presented component units* are legally separate from the primary government and provide services to entities and individuals outside the primary government. The activities of discretely presented component units are presented in a single column in the government-wide financial statements.

Information regarding obtaining financial statements of the individual component units is available from the State Controller's Office, Division of Accounting and Reporting, P.O. Box 942850, Sacramento, California 94250-5872.

Fund Financial Statements

Fund financial statements are provided for governmental funds, proprietary funds, fiduciary funds and similar component units, and discretely presented component units. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The State of California, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal and contractual requirements. Following are general descriptions of the three types of funds:

- *Governmental funds* are used to account for essentially the same functions that are reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on short-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's short-term financing requirements. This approach is known as the *flow of current financial resources measurement* focus and the *modified accrual basis of accounting*. These governmental fund statements provide a detailed short-term view of the State's finances, enabling readers to determine whether adequate financial resources exist to meet the State's current needs.

  Because governmental fund financial statements provide a narrower focus than do government-wide financial statements, it is useful to compare governmental fund statements to the governmental activities information presented in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's short-term financing decisions. Reconciliations located on the pages immediately following the fund statements show the differences between the government-wide statements and the governmental fund Balance Sheet and the governmental fund Statement of Revenues, Expenditures, and Changes in Fund Balances. Primary differences between the government-wide and fund statements relate to noncurrent assets, such as land and buildings, and noncurrent liabilities, such as bonded debt and amounts owed for compensated absences and capital lease obligations, which are reported in the government-wide statements but not in the fund-based statements.

- *Proprietary funds* show activities that operate more like those found in the private sector. The State of California has two proprietary fund types: enterprise funds and internal service funds.

  - *Enterprise funds* record activities for which a fee is charged to external users; they are presented as business-type activities in the government-wide financial statements.

  - *Internal service funds* accumulate and allocate costs internally among the State of California's various functions. For example, internal service funds provide information technology, printing, fleet management, and architectural services primarily for state departments. As a result, their activity is considered governmental.

- *Fiduciary funds* account for resources held for the benefit of parties outside the State. Fiduciary funds and the activities of fiduciary component units are not reflected in the government-wide financial statements because the resources of these funds are not available to support State of California programs. The accounting used for fiduciary funds and similar component units is similar to that used for proprietary funds.

Discretely Presented Component Units Financial Statements

The State has financial accountability for discretely presented component units, which have certain independent qualities and operate in a similar manner as private-sector businesses. The activities of the discretely presented component units are classified as enterprise activities.

Notes to the Financial Statements

The notes to the financial statements in this publication provide additional information that is essential for a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements, which describe particular accounts in more detail, are located immediately following the discretely presented component units' financial statements.

Required Supplementary Information

A section of required supplementary information follows the notes to the basic financial statements in this publication. This section includes a schedule of funding progress for certain pension and other postemployment benefit trust funds, information on infrastructure assets based on the modified approach, a budgetary comparison schedule, and a reconciliation of the budgetary basis and the GAAP basis fund balances for the major governmental funds presented in the governmental fund financial statements.

Combining Financial Statements and Schedules

The Combining Financial Statements and Schedules – Nonmajor and Other Funds section presents combining statements that provide separate financial statements for nonmajor governmental funds, nonmajor proprietary funds, fiduciary funds, and nonmajor component units. The basic financial statements present only summary information for these activities.

Government-wide Financial Analysis

Net Assets

The primary government's combined net assets (governmental and business-type activities) decreased by 81.4%, from a negative $8.5 billion as restated at June 30, 2011, to a negative $15.5 billion a year later.

The primary government's $82.3 billion investment in capital assets, such as land, buildings, equipment, and infrastructure (roads, bridges, and other immovable assets) comprise a significant portion of its net assets. This amount of capital assets is net of any outstanding debt used to acquire those assets. The State uses capital assets when providing services to citizens; consequently, these assets are not available for future spending. Although the State's investment in capital assets is reported net of related debt, the resources needed to repay this debt must come from other sources because the State cannot use the capital assets themselves to pay off the liabilities.

Another $29.4 billion of the primary government's net assets represents resources that are externally restricted as to how they may be used, such as resources pledged to debt service. Internally imposed earmarking of resources is not presented in this publication as restricted net assets. As of June 30, 2012, governmental activities showed an unrestricted net assets deficit of $123.9 billion and business-type activities showed an unrestricted net assets deficit of $3.3 billion.

A large portion of the negative unrestricted net assets of governmental activities consists of $57.5 billion in outstanding bonded debt issued to build capital assets for school districts and other local governmental entities. Because the State does not own these capital assets, neither the assets nor the related bonded debt is included in the portion of net assets reported as "investment in capital assets, net of related debt." Instead, the bonded debt is reported as a non-current liability that reduces the State's unrestricted net assets. Readers can expect to see a continued deficit in unrestricted net assets of governmental activities as long as the State has significant outstanding obligations for school districts and other local governmental entities.

Table 1 presents condensed financial information derived from the Statement of Net Assets for the primary government.

Table 1

Net Assets - Primary Government
June 30, 2011 and 2012
(amounts in millions)

	Governmental Activities		Business-type Activities		Total	
	2012	**2011**	**2012**	**2011**	**2012**	**2011**
ASSETS						
Current and other assets	$ 52,374	$ 50,820	$ 35,111	$ 33,884	$ 87,485	$ 84,704
Capital assets	103,463	100,464	9,007	8,551	112,470	$ 109,015
Total assets	**155,837**	**151,284**	**44,118**	**42,435**	**199,955**	**193,719**
LIABILITIES						
Noncurrent liabilities	126,169	120,905	36,570	37,203	162,739	$ 158,108
Other liabilities	47,925	40,835	4,741	4,426	52,666	$ 45,261
Total liabilities	**174,094**	**161,740**	**41,311**	**41,629**	**215,405**	**203,369**
NET ASSETS						
Investment in capital assets net of related debt	80,769	85,461	1,561	1,383	82,330	$ 86,844
Restricted	24,872	27,866	4,593	3,638	29,465	$ 31,504
Unrestricted	(123,898)	(123,783)	(3,347)	(4,215)	(127,245)	$ (127,998)
Total net assets (deficit)	**$ (18,257)**	**$ (10,456)**	**$ 2,807**	**$ 806**	**$ (15,450)**	**$ (9,650)**

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Changes in Net Assets

The expenses of the primary government totaled $225.5 billion for the year ended June 30, 2012. Of this amount, $113.9 billion (50.5%) was funded with program revenues (charges for services or program-specific grants and contributions), leaving $111.6 billion to be funded with general revenues (mainly taxes). The primary government's general revenues of $104.7 billion were less than the unfunded expenses. As a result, the total net assets decreased by $6.9 billion, or 81.4%.

Of the total decrease, net assets for governmental activities decreased by $8.0 billion, while those for business-type activities increased by $1.1 billion in fiscal year 2011-12.

Table 2 presents condensed financial information derived from the Statement of Activities for the primary government.

Table 2

Changes in Net Assets - Primary Government
Years ended June 30, 2011 and 2012
(amounts in millions)

	Governmental Activities		Business-type Activities		Total	
	2012	**2011**	**2012**	**2011**	**2012**	**2011**
REVENUES						
Program Revenues:						
Charges for services	$ 19,813	$ 21,122	$ 31,964	$ 34,819	$ 51,777	$ 55,941
Operating grants and contributions	58,577	67,849	1,250	1,217	59,827	69,066
Capital grants and contributions	2,193	1,272	106	86	2,299	1,358
General Revenues:						
Taxes	104,256	104,705	—	—	104,256	104,705
Investment and interest	72	63	—	—	72	63
Miscellaneous	372	229	—	—	372	229
Total revenues	**185,283**	**195,240**	**33,320**	**36,122**	**218,603**	**231,362**
EXPENSES						
Program Expenses:						
General government	14,412	13,520	—	—	14,412	13,520
Education	51,288	56,487	—	—	51,288	56,487
Health and human services	89,940	92,475	—	—	89,940	92,475
Resources	5,951	5,853	—	—	5,951	5,853
State and consumer services	1,241	1,405	—	—	1,241	1,405
Business and transportation	13,720	11,120	—	—	13,720	11,120
Correctional programs	10,344	10,296	—	—	10,344	10,296
Interest on long-term debt	4,365	4,377	—	—	4,365	4,377
Electric Power	—	—	915	2,317	915	2,317
Water Resources	—	—	1,048	1,116	1,048	1,116
Public Building Construction	—	—	404	390	404	390
State Lottery	—	—	4,432	3,507	4,432	3,507
Unemployment Programs	—	—	21,112	25,619	21,112	25,619
California State University System	—	—	6,181	5,851	6,181	5,851
Nonmajor enterprise	—	—	184	244	184	244
Total expenses	**191,261**	**195,533**	**34,276**	**39,044**	**225,537**	**234,577**
Excess (deficiency) before transfers	**(5,978)**	**(293)**	**(956)**	**(2,922)**	**(6,934)**	**(3,215)**
Transfers	(2,031)	(3,252)	2,031	3,252	—	—
Change in net assets	**(8,009)**	**(3,545)**	**1,075**	**330**	**(6,934)**	**(3,215)**
Net assets, beginning of year (restated)	**(10,249)**	**(6,911)**	**1,732**	**476**	**(8,517)**	**(6,435)**
Net assets (deficits), end of year	**$ (18,258)**	**$ (10,456)**	**$ 2,807**	**$ 806**	**$ (15,451)**	**$ (9,650)**

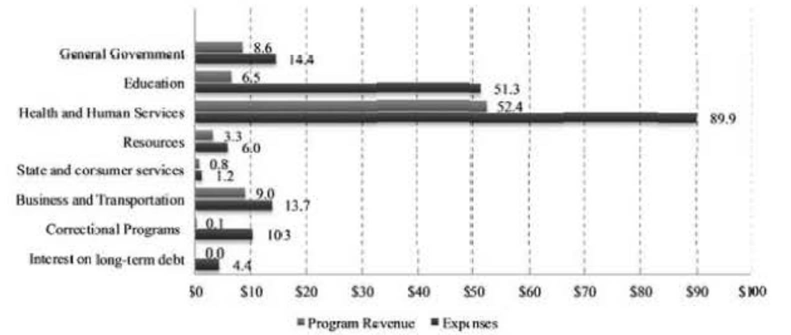
Governmental Activities

Governmental activities' expenses and transfers totaled $193.3 billion. Program revenues, including $60.8 billion received in federal grants, funded $80.6 billion (42.1%) of expenses and transfers, leaving $110.7 billion to be funded with general revenues (mainly taxes). However, general revenues for governmental activities totaled only $104.7 billion, so governmental activities' total net assets decreased by $8.0 billion, or 78.1%, during the year ended June 30, 2012.

Chart 1 presents a comparison of governmental activities' expenses by program, with related revenues.

Chart 1

Expenses and Program Revenues - Governmental Activities
Year Ended June 30, 2012
(amounts in billions)



For the year ended June 30, 2012, total state tax revenues collected for governmental activities decreased by $449 million (0.4%) from the prior year. Personal income taxes increased by $2.6 billion (5.1%) as a result of the Proposition 30 retroactive tax increase on incomes exceeding $250,000, as well as improving California employment rates. The reduction of the State sales tax rate by 1.0%, from 8.25% to 7.25%, which became effective July 1, 2011, was reflected in a $2.3 billion decrease (6.9%) in Sales and Use tax.

Overall expenses for governmental activities decreased by $4.2 billion (2.2%) from the prior year. The largest was a decrease of $5.2 billion (9.2%) in education costs. This reduction was due to the deferral of $2.0 billion in Proposition 98 funding and an adjustment of Proposition 98 guaranteed funding resulting in a $2.1 billion decrease in the amount due to K-12 schools. In addition, the fiscal year 2011-12 appropriation for both the University of California and the California State University systems was reduced by $650 million each. Health and Human Services spending was $2.5 billion (2.7%) less as a result of reductions in Medi-Cal costs which included limiting services, initiating beneficiary copayments, and eliminating programs. Savings were also realized with the reduction of monetary and length of availability of CalWORKs benefits. These decreases in expenses were somewhat offset by a $2.6 billion (23.4%) increase in business and transportation expenses due to an appropriation of $2.3 billion in various capital projects.

Charts 2 and 3 present the percentage of total expenses for each governmental activities program and the percentage of total revenues by source.

Chart 2

Expenses by Program
Year Ended June 30, 2012
(as a percent)

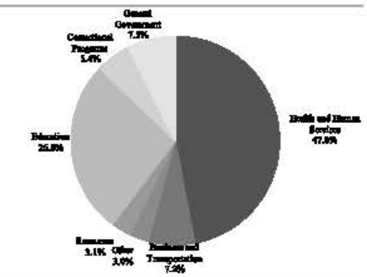
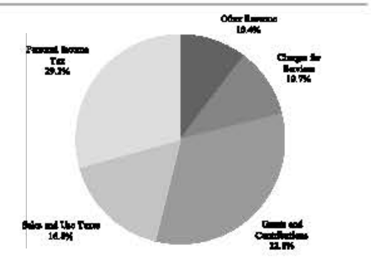


Chart 3

Revenues by Source
Year Ended June 30, 2012
(as a percent)



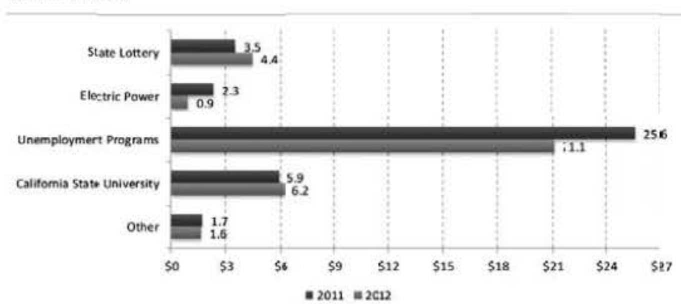
Business-type Activities

Business-type activities expenses totaled $34.3 billion. Program revenues of $33.3 billion, primarily generated from charges for services, and $2.0 billion in transfers were sufficient to cover these expenses. Consequently, business-type activities' total net assets increased by $1.1 billion, or 62.0%, during the year ended June 30, 2012.

Chart 4 presents a two-year comparison of the expenses of the State's business-type activities.

Chart 4

Expenses - Business-type Activities - Two-year Comparison
Year Ended June 30, 2011 and 2012
(amounts in billions)



Fund Financial Analysis

The State's governmental funds had a $7.2 billion decrease in fund balance over the prior year's restated ending fund balance. Some proprietary funds' net assets increased, as their revenues exceeded expenses for the fiscal year 2011-12. The Unemployment Programs Fund incurred the largest increase in net assets, $836 million, due to a $1.8 billion increase in operating income.

Governmental Funds

The governmental funds' Balance Sheet reported $65.3 billion in assets, $61.4 billion in liabilities, and $3.8 billion in fund balance as of June 30, 2012. Total assets of governmental funds increased by 7.6%, while total liabilities increased by 23.1%, primarily resulting in a total fund balance decrease of $7.2 billion (65.2%) over the prior fiscal year. This is the result of decrease in revenues of governmental fund by $10.1 billion, and decrease in expenditures by $2.4 billion, resulting in a net increase of $7.7 billion in deficiencies. As in the prior year, the General Fund had to rely heavily on internal borrowing from the State's other funds to meet its payment obligations. However, by June 30, 2012, long-term borrowing had increased by $1.7 billion to $10.6 billion.

Within the governmental funds' total fund balance, $7.6 million is classified as nonspendable because this amount consists of long-term interfund receivables and loans receivable, or due to legal or contractual requirements. Additionally, $24.9 billion is classified as restricted for specific programs by external constraints such as debt covenants and contractual obligations, or by constitutional provisions or enabling legislation. Furthermore, the total fund balance of $2.1 billion is classified as committed for specific purposes and $3 thousand is classified as assigned for specific purposes. The unassigned balance of the governmental funds is a negative $23.2 billion.

The Statement of Revenues, Expenditures, and Changes in Fund Balances of the governmental funds shows $185.2 billion in revenues, $195.6 billion in expenditures, and a net $3.2 billion in receipts from other financing sources. The ending fund balance of the governmental funds for the year ended June 30, 2012, was $3.8 billion, a $7.2 billion decrease over the prior year's restated ending fund balance of $11.0 billion. The reason for the change in the fund balance was a net increase in deficiency from prior year.

Personal income taxes, which account for 52.2% of tax revenues and 29.4% of total governmental fund revenues, increased by $2.8 billion from the prior fiscal year. Sales and use taxes, which account for 30.0% of tax revenues and 16.8% of total governmental fund revenues, decreased by $2.3 billion over the prior fiscal year. Corporation taxes, which account for 8.3% of tax revenues and 4.6% of total governmental fund revenues, decreased by $824 million from the prior fiscal year. Governmental fund expenditures decreased by $2.4 billion from the prior fiscal year. General obligation bonds and commercial paper of $4.2 billion were issued during the 2011-12 fiscal year; however, this was $360 million less than the amount issued in the prior fiscal year.

The State's major governmental funds are the General Fund, the Federal Fund, the Transportation Fund, and the Environmental and Natural Resources Fund. The General Fund ended the fiscal year with a fund deficit of $23.0 billion. The Federal Fund, the Transportation Fund, and the Environmental and Natural Resources Fund ended the fiscal year with fund balances of $161 million, $6.7 billion, and $8.0 billion, respectively. The nonmajor governmental funds ended the year with a total fund balance of $11.9 billion.

General Fund: As shown on the Balance Sheet, the General Fund (the State's main operating fund) ended the fiscal year with assets of $14.4 billion, liabilities of $37.3 billion, and nonspendable, restricted and committed fund balances of $8 million, $81 million, and $20 million, respectively, leaving the General Fund with a negative unassigned fund balance of $23.1 billion. Total assets of the General Fund increased by $2.4 billion (19.7%) from the prior fiscal year while the total liabilities of the General Fund increased by $5.4 billion (16.9%). Total fund balance decreased by $3.0 billion (15.2%).

As shown on the Statement of Revenues, Expenditures, and Changes in Fund Balances of the governmental funds, the General Fund had $86.5 billion in revenues, $88.3 billion in expenditures, and a net negative difference of $1.7 billion. Approximately 93.4% of General Fund revenue ($80.8 billion) is derived from the State's big three taxes - personal income taxes ($53.6 billion), sales and use taxes ($18.6 billion), and corporation taxes ($8.6 billion). A total of $248 million in revenue is included in General Fund in compliance with GASB, Statement 54. These revenues are not considered the General Fund revenues for any budgetary purposes or for the Budgetary Legal Annual Report. Most of these revenues ($243 million) are from unemployment programs.

During the 2011-12 fiscal year, total General Fund revenue decreased by $6.9 billion (7.4%). This is primarily a result of the net decrease in sales and use taxes by $8.4 billion and net increase in personal income taxes by $2.8 billion from the prior year. Revenue from sales and use taxes decreased by $8.4 billion (31.1%) as a result of the redirection of approximately $5.1 billion from the General Fund to the Local Revenue Fund to pay for specified local programs, as well as the reduction of the State sales tax rate by 1.00%, from 8.25% to 7.25%, which became effective on July 1, 2011. Corporation taxes decreased by $823 million (8.7%).

General Fund expenditures decreased by $2.2 billion (2.4%). The largest decrease was in education and correctional programs expenditures by $1.4 billion and $1.2 billion respectively from the prior year. The General Fund's ending fund balance for the year ended June 30, 2012 was a negative $23.0 billion, a decrease of $3.1 billion from the prior year's restated ending fund balance of a negative $19.9 billion.

Federal Fund: This fund reports Federal grant revenues and the related expenditures to support the grant programs. The largest of these program is health and human services, which accounted for $45.2 billion (77.9%) of the total $58.0 billion in fund expenditures. The Medical Assistance program and the Temporary Assistance for Needy Families program are included in this program area. Education programs also constituted a large part of the fund's expenditures—$6.6 billion (11.4%), down $2.5 billion (27.9%) from the prior year—most of which were apportionments made to local educational agencies (school districts, county offices of education, and community colleges). The Federal Fund's revenues decreased by $7.1 billion. The combined expenditures and transfers decreased $7.1 billion resulting in a $40 million fund balance increase from the prior year's ending fund balance of $122 million.

Transportation Fund: This fund accounts for fuel taxes, bond proceeds, and other revenues used primarily for highway and passenger rail construction. The Transportation Fund's revenues increased by 2.5% and expenditures increased by 18.1%. Other financing sources provided net receipts of $80 million. The Transportation Fund ended the fiscal year with a $6.7 billion fund balance, a decrease of $1.1 billion over the prior year.

Environmental and Natural Resources Fund: This fund accounts for fees, bond proceeds, and other revenues that are used for maintaining the State's natural resources and improving the environmental quality of its air, land, and water. Other financing sources provided net receipts of $655 million. The Environmental and Natural Resources Fund ended the fiscal year with a $8.0 billion fund balance, a decrease of $731 million (8.4%) from the prior year.

Proprietary Funds

Enterprise Funds: The total net assets of the enterprise funds at June 30, 2012, were $2.8 billion—$1.1 billion greater than the prior year's restated ending net assets of $1.7 billion. Some enterprise funds recorded an increase in net assets during the 2011-12 fiscal year. The majority of the increases were noted in the Unemployment Programs Fund of $836 million, Nonmajor Enterprise funds of $146 million, and the State Lottery Fund of $53 million.

As shown on the Statement of Net Assets of the proprietary funds, total assets of the enterprise funds were $44.5 billion as of June 30, 2012. Of this amount, current assets totaled $12.8 billion and noncurrent assets totaled $31.7 billion. The largest changes in asset account balances were a $1.0 billion increase in current receivables in the Unemployment Programs and a $2.8 billion decrease on deposit with U.S. Treasury in the Unemployment Programs. The total liabilities of the enterprise funds were $41.7 billion. The largest liabilities of the enterprise funds are $23.5 billion of revenue bonds payable and $9.0 billion of noncurrent loans payable. During the 2011-12 fiscal year, the State continued to obtain loans from the U.S Department of Labor to cover deficits in the Unemployment Programs Fund. The balance due on these loans as of June 30, 2012, was $9.0 billion.

Total net assets consisted of four segments: nonexpendable restricted net assets of $22 million, restricted expendable net assets of $4.6 billion, investment in capital assets (net of related debt) of $1.6 billion, and unrestricted net assets of negative $3.3 billion.

As shown on the Statement of Revenues, Expenses, and Changes in Fund Net Assets of the proprietary funds, the enterprise funds ended the year with operating revenues of $30.8 billion, operating expenses of $31.7 billion, and net disbursements from other transactions of $143 million. The largest sources of operating revenue were unemployment and disability insurance receipts of $21.9 billion in the Unemployment Programs Fund and lottery ticket sales of $4.4 billion collected by the State Lottery Fund. The unemployment and disability insurance receipts in the Unemployment Programs Fund decreased by $2.7 billion from $24.6 billion in fiscal year 2010-11. These receipts came primarily from the federal government unemployment account to pay unemployment and disability benefits. The largest operating expenses were distributions to beneficiaries of $20.8 billion by the Unemployment Programs Fund and personal services of $3.8 billion by the California State University Fund.

Internal Service Funds: Total net assets of the internal service funds were $504 million as of June 30, 2012. These net assets consist of two segments: investment in capital assets (net of related debt) of $149 million and unrestricted net assets of $355 million.

Fiduciary Funds

The State of California has four types of fiduciary funds: private purpose trust funds, pension and other employee benefit trust funds, investment trust funds, and agency funds. The private purpose trust funds ended the fiscal year with net assets of $4.7 billion. The pension and other employee benefit trust funds ended the fiscal year with net assets of $401.3 billion. The State's only investment trust fund, the Local Agency Investment Fund, ended the fiscal year with net assets of $21.9 billion. Agency funds act as clearing accounts and thus do not have net assets.

For the year ended June 30, 2012, the fiduciary funds' combined net assets were $427.9 billion, a $10.3 billion decrease from prior year net assets. The decrease in net assets was primarily because payments made to participants in pension and other employee benefit trust funds exceeded the contributions received and investment income.

The Economy for the Year Ending June 30, 2012

The U.S. economy completed its third year of recovery as California ended its fiscal year on June 30, 2012. National growth was slow, with real gross domestic product (GDP) up a modest 2.1%. The nation provided some lift, albeit muted, to the State's economy.

California's job market improved significantly, with employment increasing almost every month. Nonfarm job gains were generally widespread in all major sectors with the exception of manufacturing and government employment. The State's economy added 282,300 nonfarm jobs, or 2.0%, over the prior year, as compared with the 1.3% gain reported for the nation.

The State's jobless rate dropped by more than a full percentage point, ending at 10.7%; however, California's unemployment rate remains well above the national average of 8.2%.

As of June 2012, the housing market showed recovery, with sales of existing single-family homes increasing 8.5%, while prices were up 8.0%. The number of foreclosures initiated (default notices) in the quarter ended June 30, 2012, was down by nearly 3.7% from the same period in the prior year. Home construction picked up, with housing permits advancing 6.9%, and 27,000 construction jobs were created.

Other dimensions of California's economy supported growth. The volume of international trade passing through the State's various ports increased about 7.7%. Personal income expanded by 3.8%. The gains in jobs and income helped drive an improvement in consumer spending. For the fiscal year as a whole, taxable sales advanced 8.2%, and auto sales in the quarter ending June 30, 2012, were 24.3% above the same period in the prior year.

In fiscal 2011-12 year, California made substantial progress toward full economic recovery.

General Fund Budget Highlights

The original General Fund budget of $93.1 billion was reduced by $3.3 billion. This decrease is mainly comprised of reductions in funding to education programs per Section 12.42 of the 2011 Budget Act and other reductions in education, health and human services, correctional programs and other general government expenditures. The Judicial Branch absorbed $367 million of the reductions in other general government expenditures. During the 2011-12 fiscal year, General Fund actual budgetary basis expenditures were $87.6 billion, $2.2 billion less than the final budgeted amounts.

Table 3 presents a summary of the General Fund original and final budgets.

Table 3

General Fund Original and Final Budgets
Year ended June 30, 2012
(amounts in millions)

	Original	Final	Increase/ (Decrease)
Budgeted amounts			
State and consumer services	$ 623	$ 619	$ (4)
Business and transportation	113	112	(1)
Resources	1,057	1,090	33
Health and human services	29,087	28,573	(514)
Correctional programs	8,459	7,957	(502)
Education	43,625	41,816	(1,809)
General government:			
Tax relief	445	535	90
Debt service	4,936	4,936	—
Other general government	4,788	4,187	(601)
Total	**$ 93,133**	**$ 89,825**	**$ (3,308)**

Capital Assets and Debt Administration

Capital Assets

The State's investment in capital assets for its governmental and business-type activities as of June 30, 2012, amounted to $112.5 billion (net of accumulated depreciation). This investment in capital assets includes land, state highway infrastructure, collections, buildings and other depreciable property, and construction in progress. Depreciable property includes buildings, improvements other than buildings, equipment, personal property, intangible assets, certain infrastructure assets, certain books, and other capitalized and depreciable property. Infrastructure assets, such as roads and bridges, are items that normally are immovable and can be preserved for a greater number of years than can most capital assets.

Table 4 presents a summary of the primary government's capital assets for governmental and business-type activities.

Table 4

Capital Assets
Year ended June 30, 2012
(amounts in millions)

	Governmental Activities	Business-type Activities	Total
Land	$ 16,994	$ 216	$ 17,210
State highway infrastructure	62,522	—	62,522
Collections – nondepreciable	22	3	25
Buildings and other depreciable property	24,243	10,943	35,186
Intangible assets – amortizable	685	158	843
Less: accumulated depreciation/amortization	(10,786)	(4,391)	(15,177)
Construction in progress	8,772	1,772	10,544
Intangible assets – nonamortizable	1,011	306	1,317
Total	**$ 103,463**	**$ 9,007**	**$ 112,470**

As of June 30, 2012, the state had $112.5 billion in net capital assets, of which $62.5 billion was state highway infrastructure. This total represents an increase of $1.1 billion in infrastructure capital assets from fiscal year 2011.

Note 7, Capital Assets, includes additional information on the State's capital assets.

Modified Approach for Infrastructure Assets

The State uses the modified approach to report the cost of its infrastructure assets (state roadways and bridges). Under the modified approach, the State does not report depreciation expense for its roads and bridges but capitalizes all costs that add to their capacity and efficiency. All maintenance and preservation costs are expensed and not capitalized. Under the modified approach, the State maintains an asset management system to demonstrate that the infrastructure is preserved at or above established condition levels. During the 2011-12 fiscal year, the actual amount spent on preservation was 21.6% of the estimated budgeted amount needed to maintain the infrastructure assets at the established condition levels. Although the amount spent fell short of the budgeted amount, the assessed conditions of the State's bridges and roadways are better than the established condition baselines. The State is responsible for maintaining 49,518 lane miles and 12,944 bridges.

The Required Supplementary Information includes additional information on how the State uses the modified approach for infrastructure assets; it also presents the established condition standards, condition assessments, and preservation costs.

Debt Administration

At June 30, 2012, the primary government had total bonded debt outstanding of $114.4 billion. Of this amount, $82.2 billion (71.8%) represents general obligation bonds, which are backed by the full faith and credit of the State. Included in the $82.2 billion of general obligation bonds is $6.4 billion of Economic Recovery bonds that are secured by a pledge of revenues derived from dedicated sales and use taxes. The current portion of general obligation bonds outstanding is $2.2 billion and the long-term portion is $79.9 billion. The remaining $32.2 billion (28.2%) of bonded debt outstanding represents revenue bonds, which are secured solely by specified revenue sources. The current portion of revenue bonds outstanding is $1.4 billion and the long-term portion is $30.8 billion.

Table 5 presents a summary of the primary government's long-term obligations for governmental and business-type activities.

Table 5

Long-term Obligations
Year ended June 30, 2012
(amounts in millions)

	Governmental Activities	Business-type Activities	Total
Government-wide noncurrent liabilities			
General obligation bonds	$ 78,898	$ 1,036	$ 79,934
Revenue bonds	7,284	23,504	30,788
Certificates of participation and commercial paper	38	67	105
Capital lease obligations	4,933	758	5,691
Net other postemployment benefits obligation	12,468	411	12,879
Proposition 98 funding guarantee	2,248	—	2,248
Mandated costs	6,334	—	6,334
Loans payable	3,131	8,969	12,100
Other noncurrent liabilities	10,835	1,825	12,660
Total noncurrent liabilities	126,169	36,570	162,739
Current portion of long-term obligations	3,125	2,082	5,207
Total long-term obligations	**$ 129,294**	**$ 38,652**	**$ 167,946**

During the year ended June 30, 2012, the primary government's total long-term obligations increased by $4.0 billion over the prior year's restated balance. Governmental activities net other postemployment benefits obligation had the largest increase ($2.9 billion), but other notable increases occurred in general obligation bonds payable, loans payable, mandated costs, and capital lease obligations. During the fiscal year, the State issued $8.3 billion in new general obligation bonds for public education facilities, transportation projects, housing and emergency shelters, various water and flood control projects, and to refund outstanding general obligation bonds and commercial paper. The net other postemployment benefits obligation increased because the State does not fully fund the annual cost of these benefits.

Note 10, Long-term Obligations, and Notes 11 through 17 include additional information on the State's long-term obligations.

The State's general obligation bond credit ratings remained unchanged during the fiscal year 2011-12. The current ratings from the three credit rating agencies are as follows: Standard and Poor's – "A", Moody's Investors Service – "A1", and Fitch – "A-".

Recent Economic Condition and Future Budgets

Recent Economic Condition

California's economy continued to recover from July 1 through December 31, 2012. Uncertainties about federal fiscal policy caused some momentum to be lost in November and December. Nonetheless, signs of stabilization in some foreign economies, record low interest rates, and a general improvement in business and household balance sheets represent a significant strengthening in economic fundamentals.

California added over 82,000 jobs to nonfarm payrolls during the first six months of the 2012-13 fiscal year. The State's year-over-year job growth exceeded the national average throughout the period. In December, California's nonfarm payrolls were up 1.6% over the prior year compared to a 1.4% increase for the nation. California's job gains have driven down the unemployment rate by nearly a full percentage point from 10.7% at the beginning of the fiscal year to 9.8% by December 2012.

Total personal income has increased with the growth of jobs. As of the first quarter of fiscal year 2012-13, personal income reached an annualized rate of $1.7 trillion, significantly exceeding that of any other state. On a year-over-year basis, California's total personal income was up 3.6%. Job and personal income gains have supported consumer spending, including a 25.3% jump in auto sales to a total exceeding 1.6 million vehicles in 2012.

California's housing market has rebounded with declines in the number of foreclosures, sales gains for new and existing homes, increases in prices, and advances in both building activity and construction jobs. As of December, the median price of existing single-family homes in the State was up 27.0% from the prior year. The strength in pricing has been accompanied by a sharp drop in inventories. As of year-end, the number of homes on the market was equal to just 2.6 months of sales. This compares to a more normal inventory level of six to seven months.

Building permits for new single and multi-family housing advanced by 29.1% in 2012 to 58,540 units, the highest number since 2008. Construction employment advanced by 24,500 jobs, or 4.4%, from December 2011 to December 2012.

Although uncertainties remain over national budget and tax decisions that would affect California, the balance of the fiscal year should see support from some of the State's more successful key sectors. These include technology, agriculture, tourism, international trade, and housing.

California's 2012-13 Budget

California's 2012-13 Budget Act was enacted on June 27, 2012. The Budget Act appropriated $142.4 billion: $91.3 billion from the General Fund, $39.4 billion from special funds, and $11.7 billion from bond funds. The General Fund spending increased $5.4 billion (6.3%) over last year's General Fund budget. The General Fund's available resources were projected to be $95.9 billion, resulting in a projected reserve for economic uncertainties of $948 million. General Fund revenues come predominantly from taxes, with personal income taxes expected to provide 62.9% of total revenue. California's major taxes (personal income, sales and use, and corporation taxes) were projected to supply approximately 93.2% of the General Fund's resources in the 2012-13 fiscal year.

The Budget enacted $16.6 billion in actions to solve a General Fund gap between resources and expenditures. The Budget solutions can be categorized into three major areas: expenditure-related solutions; revenue actions; and loans, loan repayment extensions, and transfers.

The $8.1 billion in expenditure-related solutions include: ongoing reductions in health and social services by reforming CalWORKs to reflect federal work requirements, and merging the delivery of services for those who are eligible for both Medi-Cal and Medicare; using cash assets of former redevelopment agencies to offset General Fund obligations; and suspending various state mandates, except for most mandates related to law enforcement or property taxes, for three years, 2012-13 to 2014-15, and deferring the payment of pre-2004 mandated costs for the same three years.

The $6.0 billion in proposed revenue assumed passage of Proposition 30, Temporary Taxes to Fund Education Act, in November of 2012. This proposition was approved by the voters of California in November of 2012; it temporarily increases the personal income tax on the State's wealthiest taxpayers for seven years and increases the state sales tax by one-quarter percent for four years, resulting in an estimated $8.5 billion through 2012-13.

The Budget also included $2.5 billion in loan repayment extensions and transfers, and loans from special funds. Transfers and loans include a loan of $313 million from the Unemployment Compensation Disability Fund to pay for the unemployment-related interest to the federal government, and a transfer of $374 million in weight fee revenues to be used to offset debt service costs associated with general obligation transportation bonds.

The proposed 2013-14 Governor's Budget provides revised revenue and expenditure estimates for the 2012-13 fiscal year. Revenue estimates decreased by approximately $500 million (0.5%), expenditure estimates increased by $1.7 billion (1.8%), and Total Available Reserves decreased by approximately $800 million (82.4%). Despite the decrease in revenue and increase in expenditure projections, the 2012-13 budget is still projected to eliminate the $1.6 billion deficit that remained at the end of the 2011-12 fiscal year, and maintain a reserve of approximately $200 million at the end of fiscal year 2012-13.

California's 2013-14 Budget

The Governor released his proposed 2013-14 Budget on January 10, 2013. The proposed budget initiates a multi-year plan that is balanced, maintains a $1.0 billion reserve, and pays down budgetary debt from past years. This is the first time in over ten years that future spending is expected to stay within available resources. Unlike in prior years, the General Fund is estimated to begin with a surplus rather than a deficit. The General Fund began with a deficit balance of $1.6 billion at the beginning of fiscal year 2012-13; it is projected to begin fiscal year 2013-14 with a surplus of approximately $800 million.

The 2013-14 Governor's Budget projects that General Fund revenues and transfers will be $98.5 billion and expenditures will be approximately $97.7 billion with a $1.0 billion reserve. Proposed 2013-14 General Fund revenues and transfers are 3.3% more than the revised 2012-13 estimate of $95.4 billion, while the 2013-14 expenditures are 5.0% greater than the revised 2012-13 estimate of $93.0 billion.

Sales and Use Tax, projected to increase by $2.6 billion, 12.3% over the prior year, represents the major component of the $3.1 billion General Fund revenue increase. Projected increases in Personal Income Tax of $1.1 billion (1.8%) and Corporation Tax of $1.5 billion (20.4%) also contribute to the 3.3% increase in General Fund Revenue projections. Reflecting the Governor's intent to reinvest in education, the fiscal year 2013-14 budget expenditures of $97.7 billion included $41.1 billion (42.1%) for K-12 funding, and $11.1 billion (11.4%) for higher education programs. This is the first time since the recession began in 2008 that the budget has not had to implement cuts to education funding. Increased funding of education is attributed to the passage of the Governor's initiative, Proposition 30, Temporary Taxes to Fund Education, in November of 2012. Funding levels for K-12 students is estimated to increase by more than $1,100 per student over 2011-12 levels. Increased funding for higher education is intended to provide stable funding growth over multiple years and eliminate the need for further tuition increases in both the University of California and the California State University systems. Approximately $19.5 billion, or 20.0% in General Fund expenditures, is allocated to Medi-Cal, the State's Medicaid health care program for low-income families and $7.6 billion is appropriated for Social Services programs including $2.8 billion for State Supplementary Payments to those already meeting federal Supplemental Security Income program requirements; $1.9 billion for CalWorks, a program to provide temporary cash assistance to low-income families with children as well as providing welfare-to-work services; $1.8 billion for In-Home Supportive Services, which provides domestic services and personal care to eligible low-income aged, blind, and disabled persons; and approximately $800 million for county operating expenses associated with administering public assistance programs.

According to the Legislative Analyst's Office (LAO), California's nonpartisan fiscal and policy advisor, the Governor's budget projections for fiscal year 2013-14 accurately reflect a significant improvement in the State's finances. The LAO has stated that the Governor's fiscal year 2013-14 budget indicates the State's underlying expenditures and revenues are roughly in balance and, with the exception of education funding, the remainder of the General Fund spending reflects a baseline budget.

Requests for Information

The State Controller's Office designed this financial report to provide interested parties with a general overview of the State of California's finances. Address questions concerning the information provided in this report or requests for additional information to the State Controller's Office, Division of Accounting and Reporting, P.O. Box 942850, Sacramento, California 94250-5872. This report is also available on the Controller's Office website at www.sco.ca.gov.

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Basic Financial Statements

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Government-wide Financial Statements

Statement of Net Assets

June 30, 2012
(amounts in thousands)

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
ASSETS				
Current assets:				
Cash and pooled investments	$ 19,114,107	$ 3,784,339	$ 22,898,446	$ 2,838,743
Amount on deposit with U.S. Treasury	—	57,064	57,064	—
Investments	402,562	1,495,738	1,898,300	6,846,230
Restricted assets:				
Cash and pooled investments	—	3,479,847	3,479,847	85,918
Investments	—	—	—	36,556
Due from other governments	—	45,618	45,618	—
Net investment in direct financing leases	—	426,877	426,877	—
Receivables (net)	15,733,501	1,904,658	17,638,159	3,975,024
Internal balances	(2,125,628)	2,125,628	—	—
Due from primary government	—	—	—	1,300,178
Due from other governments	13,245,516	420,561	13,666,077	746,620
Prepaid items	102,827	51,664	154,491	1,383
Inventories	91,364	40,892	132,256	180,850
Recoverable power costs (net)	—	132,000	132,000	—
Other current assets	105,720	46,224	151,944	368,077
Total current assets	46,669,969	14,011,110	60,681,079	16,379,579
Noncurrent assets:				
Restricted assets:				
Cash and pooled investments	—	1,319,700	1,319,700	91,539
Investments	—	410,286	410,286	5,344
Loans receivable	—	192,549	192,549	—
Investments	—	1,557,397	1,557,397	45,861,575
Net investment in direct financing leases	—	7,213,428	7,213,428	—
Receivables (net)	1,833,792	269,361	2,103,153	1,449,414
Loans receivable	3,659,060	4,085,765	7,744,825	5,640,853
Recoverable power costs (net)	—	5,038,000	5,038,000	—
Deferred charges	211,274	990,257	1,201,531	25,079
Capital assets:				
Land	16,993,819	216,206	17,210,025	965,157
State highway infrastructure	62,522,130	—	62,522,130	—
Collections - nondepreciable	22,528	2,895	25,423	352,169
Buildings and other depreciable property	24,243,231	10,942,625	35,185,856	40,016,117
Intangible assets - amortizable	685,093	158,043	843,136	657,941
Less: accumultated depreciation/amortization	(10,786,445)	(4,390,870)	(15,177,315)	(18,004,761)
Construction in progress	8,771,663	1,772,344	10,544,007	2,811,804
Intangible assets - nonamortizable	1,010,769	305,689	1,316,458	5,213
Other noncurrent assets	—	23,798	23,798	754,033
Total noncurrent assets	109,166,914	30,107,473	139,274,387	80,631,477
Total assets	**$ 155,836,883**	**$ 44,118,583**	$ 199,955,466	**$ 97,011,056**

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

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	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
LIABILITIES				
Current liabilities:				
Accounts payable	$ 27,243,207	$ 480,140	$ 27,723,347	$ 2,672,625
Due to component units	1,300,178	29,173	1,329,351	—
Due to other governments	6,460,504	191,165	6,651,669	19,881
Deferred revenue	—	262,385	262,385	971,457
Tax overpayments	5,386,810	—	5,386,810	—
Deposits	506,975	71	507,046	689,293
Contracts and notes payable	22	—	22	21,139
Unclaimed property liability	924,144	—	924,144	—
Advance collections	1,221,117	318,436	1,539,553	84,022
Interest payable	1,201,455	208,262	1,409,717	87,048
Securities lending obligations	—	—	—	1,695,677
Benefits payable	—	726,340	726,340	1,642,424
Current portion of long-term obligations	3,124,822	2,082,470	5,207,292	2,282,956
Other current liabilities	556,101	442,982	999,083	2,837,424
Total current liabilities	47,925,335	4,741,424	52,666,759	13,003,946
Noncurrent liabilities:				
Benefits payable	—	—	—	15,186,516
Loans payable	3,131,365	8,968,936	12,100,301	—
Lottery prizes and annuities	—	822,778	822,778	—
Compensated absences payable	3,801,542	176,895	3,978,437	273,500
Certificates of participation, commercial paper and other borrowings	38,447	67,325	105,772	56,611
Capital lease obligations	4,933,393	758,025	5,691,418	2,859,296
General obligation bonds payable	78,898,176	1,036,439	79,934,615	—
Revenue bonds payable	7,283,836	23,503,920	30,787,756	19,264,327
Net other postemployment benefits obligation	12,467,883	410,782	12,878,665	7,005,138
Pollution remediation obligation	869,037	8,920	877,957	—
Deferred revenue	—	11,387	11,387	—
Other noncurrent liabilities	14,745,585	804,723	15,550,308	4,299,438
Total noncurrent liabilities	126,169,264	36,570,130	162,739,394	48,944,826
Total liabilities	**174,094,599**	**41,311,554**	215,406,153	**61,948,772**
NET ASSETS				
Investment in capital assets, net of related debt	80,768,527	1,561,258	82,329,785	12,297,876
Restricted:				
Nonexpendable - endowments	—	—	—	4,468,700
Nonexpendable	—	21,584	21,584	—
Expendable:				
Endowments and gifts	—	—	—	7,423,765
Business and transportation	9,895,197	6,588	9,901,785	1,448,038
Resources	6,421,232	802,670	7,223,902	—
Health and human services	2,565,741	126,099	2,691,840	—
Education	1,244,018	66,041	1,310,059	1,592,589
General government	3,950,622	584,596	4,535,218	399,947
Unemployment programs	—	2,932,741	2,932,741	—
State and consumer services	791,218	37,754	828,972	461,552
Correctional programs	3,482	14,547	18,029	—
Workers' compensation liability	—	—	—	6,678,156
Total expendable	24,871,510	4,571,036	29,442,546	18,004,047
Unrestricted	(123,897,753)	(3,346,849)	(127,244,602)	291,661
Total net assets	**(18,257,716)**	**2,807,029**	(15,450,687)	**35,062,284**
Total liabilities and net assets	**$ 155,836,883**	**$ 44,118,583**	$ 199,955,466	**$ 97,011,056**

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

Statement of Activities

Year Ended June 30, 2012

(amounts in thousands)

		Program Revenues			Net (Expenses) Revenues and Changes in Net Assets			
					Primary Government			
FUNCTIONS/PROGRAMS	**Expenses**	**Charges for Services**	**Operating Grants and Contributions**	**Capital Grants and Contributions**	**Governmental Activities**	**Business-type Activities**	Total	**Component Units**
Primary government								
Governmental activities:								
General government	$ 14,411,737	$ 6,841,334	$ 1,746,564	$ —	$ (5,823,839)		$ (5,823,839)	
Education	51,288,647	81,212	6,428,120	—	(44,779,315)		(44,779,315)	
Health and human services	89,939,730	4,940,650	47,422,641	—	(37,576,439)		(37,576,439)	
Resources	5,950,635	2,866,232	398,020	—	(2,686,383)		(2,686,383)	
State and consumer services	1,241,269	724,222	34,925	—	(482,122)		(482,122)	
Business and transportation	13,719,927	4,342,668	2,469,014	2,193,189	(4,715,056)		(4,715,056)	
Correctional programs	10,343,574	16,757	77,722	—	(10,249,095)		(10,249,095)	
Interest on long-term debt	4,365,181	—	—	—	(4,365,181)		(4,365,181)	
Total governmental activities	191,260,700	19,813,075	58,577,006	2,193,189	(110,677,430)		(110,677,430)	
Business-type activities:								
Electric Power	915,000	915,000	—	—		$ —	—	
Water Resources	1,047,574	1,047,574	—	—		—	—	
Public Building Construction	403,853	428,260	—	—		24,407	24,407	
State Lottery	4,431,709	4,484,291	—	—		52,582	52,582	
Unemployment Programs	21,111,658	21,947,781	—	—		836,123	836,123	
California State University	6,181,397	2,915,123	1,249,995	—		(2,016,279)	(2,016,279)	
High Technology Education	7,778	8,452	—	—		674	674	
State Water Pollution Control Revolving	8,780	57,540	—	106,057		154,817	154,817	
Housing Loan	89,570	84,830	—	—		(4,740)	(4,740)	
Other enterprise programs	78,601	74,693	—	—		(3,908)	(3,908)	
Total business-type activities	34,275,920	31,963,544	1,249,995	106,057		(956,324)	(956,324)	
Total primary government	**$ 225,536,620**	**$ 51,776,619**	**$ 59,827,001**	**$ 2,299,246**	**(110,677,430)**	**(956,324)**	(111,633,754)	
Component Units								
University of California	$ 26,304,230	$ 14,318,472	$ 7,617,794	$ 198,023				$ (4,169,941)
State Compensation Insurance Fund	1,718,061	936,786	—	—				(781,275)
California Housing Finance Agency	530,774	408,252	75,142	—				(47,380)
Public Employees' Benefits Funds	3,113,181	2,185,066	—	—				(928,115)
Nonmajor component units	1,850,672	1,065,852	559,922	13,628				(211,270)
Total component units	**$ 33,516,918**	**$ 18,914,428**	**$ 8,252,858**	**$ 211,651**				**(6,137,981)**
General revenues:								
Personal income taxes					54,368,347	—	54,368,347	—
Sales and use taxes					31,216,438	—	31,216,438	—
Corporation taxes					8,629,935	—	8,629,935	—
Motor vehicle excise tax					5,263,435	—	5,263,435	—
Insurance taxes					2,408,473	—	2,408,473	—
Other taxes					2,368,748	—	2,368,748	—
Investment and interest (loss)					72,237	—	72,237	1,836,764
Escheat					372,215	—	372,215	—
Other					—	—	—	2,611,024
Transfers					(2,031,032)	2,031,032	—	—
Total general revenues and transfers					**102,668,796**	**2,031,032**	104,699,828	**4,447,788**
Change in net assets					(8,008,634)	1,074,708	(6,933,926)	(1,690,193)
Net assets, July 1, 2011					**(10,249,082) ***	**1,732,321 ***	(8,516,761)	**36,752,477 ***
Net assets (deficit), June 30, 2012					**$ (18,257,716)**	**$ 2,807,029**	$ (15,450,687)	**$ 35,062,284**

*Restated

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

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

Fund Financial Statements

Balance Sheet

Governmental Funds

June 30, 2012
(amounts in thousands)

	General	Federal	Transportation	Environmental and Natural Resources	Nonmajor Governmental	Total
ASSETS						
Cash and pooled investments	$ 897,718	$ 254,318	$ 2,552,190	$ 5,281,994	$ 9,394,652	$ 18,380,872
Investments	—	—	—	—	402,562	402,562
Receivables (net)	11,778,175	714	773,834	420,458	2,631,247	15,604,428
Due from other funds	1,229,720	—	1,614,852	482,887	2,769,483	6,096,942
Due from other governments	257,172	12,775,942	72,129	39,741	91,448	13,236,432
Interfund receivables	46,767	90,316	2,967,340	1,463,462	3,229,868	7,797,753
Loans receivable	148,319	164,948	—	968,812	2,376,981	3,659,060
Other assets	7,070	—	79,013	—	19,637	105,720
Total assets	**$ 14,364,941**	**$ 13,286,238**	**$ 8,059,358**	**$ 8,657,354**	**$ 20,915,878**	**$ 65,283,769**
LIABILITIES						
Accounts payable	$ 1,817,063	$ 1,320,342	$ 448,691	$ 434,481	$ 953,470	$ 4,974,047
Due to other funds	15,266,286	9,637,470	120,774	13,095	3,639,383	28,677,008
Due to component units	1,248,944	—	454	2,000	48,296	1,299,694
Due to other governments	1,042,392	2,008,978	446,995	89,199	2,952,549	6,540,113
Interfund payables	10,584,695	—	2,745	4,272	6,117	10,597,829
Tax overpayments	5,386,810	—	—	—	—	5,386,810
Deposits	2,192	—	6,999	308	489,793	499,292
Advance collections	564,676	136,662	15,001	139,327	94,304	949,970
Interest payable	—	5,544	—	—	173,060	178,604
Unclaimed property liability	924,144	—	—	—	—	924,144
General obligation bonds payable	—	—	—	—	476,470	476,470
Other liabilities	489,027	15,923	291,109	9,618	138,823	944,500
Total liabilities	**37,326,229**	**13,124,919**	**1,332,768**	**692,300**	**8,972,265**	**61,448,481**
FUND BALANCES						
Nonspendable	7,614	—	—	—	—	7,614
Restricted	80,849	161,319	6,683,003	7,486,983	10,459,356	24,871,510
Committed	19,600	—	48,072	537,894	1,523,123	2,128,689
Assigned	—	—	—	—	3	3
Unassigned	(23,069,351)	—	(4,485)	(59,823)	(38,869)	(23,172,528)
Total fund balances (deficit)	**(22,961,288)**	**161,319**	**6,726,590**	**7,965,054**	**11,943,613**	**3,835,288**
Total liabilities and fund balances	**$ 14,364,941**	**$ 13,286,238**	**$ 8,059,358**	**$ 8,657,354**	**$ 20,915,878**	**$ 65,283,769**

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Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets

(amounts in thousands)

Total fund balances – governmental funds		**$ 3,835,288**
Amounts reported for governmental activities in the Statement of Net Assets are different from those in the Governmental Funds Balance Sheet because:		
• The following capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds:		
Land	16,991,507	
State highway infrastructure	62,522,130	
Collections – nondepreciable	22,528	
Buildings and other depreciable property	23,641,440	
Intangible assets – amortizable	628,116	
Less: accumulated depreciation/amortization	(10,288,868)	
Construction in progress	8,763,108	
Intangible assets – nonamortizable	1,010,769	
		103,290,730
• Other assets are not available to pay for current-period expenditures and, therefore, are not reported.		1,833,792
• Internal service funds are used by management to charge the costs of certain activities, such as architectural, procurement, and technology services, to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the Statement of Net Assets.		504,484
• Bond discounts, premiums, and deferred issue costs are amortized over the life of the bonds and are included in the governmental activities in the Statement of Net Assets.		(929,073)
• General obligation bonds and related accrued interest totaling $79,992,642, revenue bonds totaling $7,893,147, and certificates of participation and commercial paper totaling $46,098 are not due and payable in the current period and, therefore, are not reported in the funds.		(87,931,887)
• The following liabilities are not due and payable in the current period; therefore, adjustments to these liabilities are not reported in the funds:		
Compensated absences	(3,659,406)	
Capital leases	(5,176,341)	
Net other postemployment benefits obligation	(12,178,616)	
Mandated costs	(6,333,861)	
Workers' compensation	(2,821,503)	
Loans payable	(2,032,275)	
Proposition 98 funding guarantee	(2,247,676)	
Net pension obligation	(3,181,603)	
Pollution remediation obligations	(937,630)	
Other noncurrent liabilities	(292,139)	
		(38,861,050)
Net assets of governmental activities		**$ (18,257,716)**

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Statement of Revenues, Expenditures, and Changes in Fund Balances

Governmental Funds

Year Ended June 30, 2012
(amounts in thousands)

	General	Federal	Transportation	Environmental and Natural Resources	Nonmajor Governmental	Total
REVENUES						
Personal income taxes	$ 53,597,172	$ —	$ —	$ —	$ 845,561	$ 54,442,733
Sales and use taxes	18,618,281	—	588,803	—	11,998,099	31,205,183
Corporation taxes	8,609,935	—	—	—	—	8,609,935
Motor vehicle excise taxes	—	—	5,263,435	—	—	5,263,435
Insurance taxes	2,157,094	—	—	—	251,379	2,408,473
Other taxes	539,119	—	5,619	125,762	1,636,217	2,306,717
Intergovernmental	—	60,770,066	—	—	1,465,605	62,235,671
Licenses and permits	78,198	—	3,828,465	370,968	2,322,370	6,600,001
Charges for services	242,208	—	131,938	115,824	239,010	728,980
Fees	961,375	—	18,649	2,265,728	3,921,896	7,167,648
Penalties	270,664	126	44,106	23,675	809,233	1,147,804
Investment and interest	33,092	—	14,632	62,930	65,244	175,898
Escheat	372,215	—	—	—	—	372,215
Other	1,056,662	—	69,277	114,088	1,302,478	2,542,505
Total revenues	**86,536,015**	**60,770,192**	**9,964,924**	**3,078,975**	**24,857,092**	**185,207,198**
EXPENDITURES						
Current:						
General government	3,535,755	1,166,863	146,761	65,426	8,569,500	13,484,305
Education	42,092,217	6,592,774	2,759	19,982	1,654,605	50,362,337
Health and human services	27,716,347	45,235,517	2,886	157,153	16,361,488	89,473,391
Resources	1,031,292	366,331	378,217	3,375,014	207,721	5,358,575
State and consumer services	598,875	34,906	97,985	77,784	409,949	1,219,499
Business and transportation	6,063	4,537,834	10,509,669	11,027	620,018	15,684,611
Correctional programs	7,908,396	11,856	—	—	1,885,594	9,805,846
Capital outlay	528,804	—	—	321,499	446,110	1,296,413
Debt service:						
Bond and commercial paper retirement	1,680,445	67,730	4,347	419,421	2,264,049	4,435,992
Interest and fiscal charges	3,183,458	16,560	32,892	18,595	1,202,138	4,453,643
Total expenditures	**88,281,652**	**58,030,371**	**11,175,516**	**4,465,901**	**33,621,172**	**195,574,612**
Excess (deficiency) of revenues over (under) expenditures	(1,745,637)	2,739,821	(1,210,592)	(1,386,926)	(8,764,080)	(10,367,414)
OTHER FINANCING SOURCES (USES)						
General obligation bonds and commerical paper issued	—	—	937,285	427,610	2,800,620	4,165,515
Refunding debt issued	438,635	—	592,013	273,408	2,996,499	4,300,555
Payment to refund long-term debt	(437,684)	—	(620,866)	(290,044)	(3,160,240)	(4,508,834)
Premium on bonds issued	246,277	—	60,788	31,722	329,144	667,931
Capital leases	528,804	—	—	—	—	528,804
Transfers in	1,236,110	—	19	240,601	4,046,914	5,523,644
Transfers out	(3,323,495)	(2,700,056)	(889,289)	(27,622)	(558,669)	(7,499,131)
Total other financing sources (uses)	(1,311,353)	(2,700,056)	79,950	655,675	6,454,268	3,178,484
Net change in fund balances	(3,056,990)	39,765	(1,130,642)	(731,251)	(2,309,812)	(7,188,930)
Fund balances (deficit), July 1, 2011	**(19,904,298) ***	**121,554**	**7,857,232 ***	**8,696,305 ***	**14,253,425 ***	**11,024,218**
Fund balances (deficit), June 30, 2012	**$ (22,961,288)**	**$ 161,319**	**$ 6,726,590**	**$ 7,965,054**	**$ 11,943,613**	**$ 3,835,288**

*Restated

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

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities

(amounts in thousands)

Net change in fund balances – total governmental funds		**$ (7,188,930)**
Amounts reported for governmental activities in the Statement of Activities are different from those in the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds because:		
• Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. In the current year, these amounts are:		
Depreciation expense, net of asset disposal	(698,540)	
Disposal of assets	(1,908,309)	
Purchase of assets	5,662,301	
		3,055,452
• Revenues in the Statement of Activities that do not provide current financial resources are deferred and not reported as revenues in the funds.		75,900
• Internal service funds are used by management to charge the costs of certain activities, such as architectural, procurement, and technology services, to individual funds. The net revenue (expense) of the internal service funds is reported with governmental activities.		(69,871)
• Bonds and other noncurrent financing instruments provide current financial resources to governmental funds in the form of debt, which increases long-term liabilities in the Statement of Net Assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. The following amounts represent the difference between proceeds and repayments:		
General obligation bonds	(1,629,678)	
Revenue bonds	89,894	
Certificates of participation and commercial paper	1,289,242	
		(250,542)
• The following expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds:		
Compensated absences	(58,099)	
Capital leases	(294,853)	
Net other postemployment benefits obligation	(2,796,361)	
Mandated costs	(592,798)	
Workers' compensation	(160,611)	
Proposition 98 funding guarantee	389,175	
Net pension obligation	(178,966)	
Pollution remediation obligations	(133,355)	
Other noncurrent liabilities	195,225	
		(3,630,643)
Change in net assets of governmental activities		**$ (8,008,634)**

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Statement of Net Assets

Proprietary Funds

June 30, 2012

(amounts in thousands)

	Electric Power	Water Resources	Public Building Construction	State Lottery	Unemployment Programs	California State University	Nonmajor Enterprise	Total	Internal Service Funds
				Business-type Activities - Enterprise Funds					Governmental Activities
ASSETS									
Current assets:									
Cash and pooled investments	$ —	$ 422,404	$ —	$ 189,377	$ 2,085,254	$ 444,458	$ 642,846	$ 3,784,339	$ 733,235
Amount on deposit with U.S. Treasury	—	—	—	—	57,064	—	—	57,064	—
Investments	—	—	—	148,832	—	1,346,906	—	1,495,738	—
Restricted assets:									
Cash and pooled investments	979,000	—	2,449,795	—	—	—	51,052	3,479,847	—
Due from other governments	—	—	—	—	—	—	45,618	45,618	—
Net investment in direct financing leases	—	—	398,319	—	—	9,216	19,342	426,877	—
Receivables (net)	—	110,649	176,113	303,164	1,299,833	142,685	50,819	2,083,263	129,073
Due from other funds	4,000	1,288	28,619	476	36,885	702,650	4,828	778,746	191,388
Due from other governments	—	15,787	—	—	219,367	—	185,407	420,561	9,084
Prepaid items	—	—	—	2,215	5,223	44,214	12	51,664	102,825
Inventories	—	29,653	—	7,947	—	—	3,292	40,892	91,364
Recoverable power costs (net)	132,000	—	—	—	—	—	—	132,000	—
Other current assets	46,000	—	—	—	180	—	44	46,224	—
Total current assets	1,161,000	579,781	3,052,846	652,011	3,703,806	2,690,129	1,003,260	12,842,833	1,256,969
Noncurrent assets:									
Restricted assets:									
Cash and pooled investments	886,000	63,246	353,897	—	—	884	15,673	1,319,700	—
Investments	300,000	75,615	23,262	—	—	—	11,409	410,286	—
Loans receivable	—	—	—	—	—	—	192,549	192,549	—
Investments	—	—	—	995,150	—	532,987	29,260	1,557,397	—
Net investment in direct financing leases	—	—	6,810,267	—	—	383,855	19,306	7,213,428	—
Receivables	—	—	—	—	29,562	239,799	—	269,361	—
Interfund receivables	—	91,517	—	93,928	1,204,702	121,176	31,884	1,543,207	298,040
Loans receivable	—	19,142	—	—	—	91,750	3,974,873	4,085,765	—
Recoverable power costs (net)	5,038,000	—	—	—	—	—	—	5,038,000	—
Deferred charges	—	908,150	70,585	1,056	—	—	10,466	990,257	—
Capital assets:									
Land	—	136,129	—	6,469	—	72,336	1,272	216,206	2,312
Collections – nondepreciable	—	—	—	—	—	2,895	—	2,895	—
Buildings and other depreciable property	—	4,825,944	—	150,846	16,054	5,930,192	19,589	10,942,625	601,791
Intangible assets – amortizable	—	24,162	—	—	12,279	120,453	1,149	158,043	56,977
Less: accumulated depreciation/amortization	—	(2,281,807)	—	(72,131)	(7,416)	(2,013,316)	(16,200)	(4,390,870)	(497,577)
Construction in progress	—	408,072	1,102,811	—	—	261,461	—	1,772,344	8,555
Intangible assets – non-amortizable	—	100,452	—	—	203,789	1,361	87	305,689	—
Other noncurrent assets	1,000	—	—	—	—	2,000	20,798	23,798	—
Total noncurrent assets	6,225,000	4,370,622	8,360,822	1,175,318	1,458,970	5,747,833	4,312,115	31,650,680	470,098
Total assets	**$ 7,386,000**	**$ 4,950,403**	**$ 11,413,668**	**$ 1,827,329**	**$ 5,162,776**	**$ 8,437,962**	**$ 5,315,375**	$ 44,493,513	**$ 1,727,067**

(continued)

Statement of Net Assets (continued)

Proprietary Funds

June 30, 2012

(amounts in thousands)

	Electric Power	Water Resources	Public Building Construction	Business-type Activities - Enterprise Funds: State Lottery	Unemployment Programs	California State University	Nonmajor Enterprise	Total	Governmental Activities: Internal Service Funds
LIABILITIES									
Current liabilities:									
Accounts payable	$ 59,222	$ 88,025	$ 112,609	$ 42,807	$ 3	$ 171,028	$ 6,180	$ 479,874	$ 156,149
Due to other funds	—	34,024	25,736	283,821	28,706	—	2,909	375,196	128,149
Due to component units	—	—	29,173	—	—	—	—	29,173	484
Due to other governments	—	142,048	—	—	48,812	—	305	191,165	612
Deferred revenue	—	—	—	—	—	262,312	73	262,385	—
Deposits	—	—	—	—	—	—	71	71	7,683
Contracts and notes payable	—	—	—	—	—	—	—	—	9,116
Advance collections	—	—	5,776	2,830	309,785	—	45	318,436	272,700
Interest payable	57,000	17,370	117,942	—	—	—	15,950	208,262	—
Benefits payable	—	—	—	—	726,340	—	—	726,340	—
Current portion of long-term obligations	592,000	192,928	444,407	483,275	—	292,699	77,161	2,082,470	16,837
Other current liabilities	6,000	—	—	—	100,452	336,221	309	442,982	7,761
Total current liabilities	714,222	474,395	735,643	812,733	1,214,098	1,062,260	103,003	5,116,354	599,491
Noncurrent liabilities:									
Interfund payables	—	—	—	—	—	—	—	—	140,260
Loans payable	—	—	—	—	8,968,936	—	—	8,968,936	—
Lottery prizes and annuities	—	—	—	822,778	—	—	—	822,778	—
Compensated absences payable	—	32,939	—	7,451	45,942	87,886	2,677	176,895	146,157
Certificates of participation, commercial paper, and other borrowings	—	28,783	—	—	—	38,542	—	67,325	—
Capital lease obligations	—	—	—	—	—	758,025	—	758,025	—
General obligation bonds payable	—	302,920	—	—	—	—	733,519	1,036,439	—
Revenue bonds payable	6,667,000	2,303,201	10,438,567	—	—	3,516,055	579,097	23,503,920	—
Net other postemployment benefits obligation	3,778	117,924	—	26,906	84,288	172,587	5,299	410,782	289,267
Pollution remediation obligations	—	8,920	—	—	—	—	—	8,920	—
Deferred revenue	—	—	—	—	—	11,387	—	11,387	—
Other noncurrent liabilities	1,000	475,890	—	1,863	—	226,469	99,501	804,723	47,408
Total noncurrent liabilities	6,671,778	3,270,577	10,438,567	858,998	9,099,166	4,810,951	1,420,093	36,570,130	623,092
Total liabilities	**7,386,000**	**3,744,972**	**11,174,210**	**1,671,731**	**10,313,264**	**5,873,211**	**1,523,096**	41,686,484	**1,222,583**
NET ASSETS									
Investment in capital assets, net of related debt	—	684,025	—	85,184	224,706	561,419	5,924	1,561,258	149,398
Restricted:									
Nonexpendable	—	—	—	—	—	21,584	—	21,584	—
Expendable:									
Construction	—	521,406	223,149	—	—	20,835	—	765,390	—
Debt service	—	—	16,309	—	—	3,846	222,106	242,261	—
Security for revenue bonds	—	—	—	—	—	—	238,166	238,166	—
Lottery	—	—	—	155,599	—	—	—	155,599	—
Unemployment programs	—	—	—	—	2,932,741	—	—	2,932,741	—
Other purposes	—	—	—	—	—	41,360	195,519	236,879	—
Total expendable	—	521,406	239,458	155,599	2,932,741	66,041	655,791	4,571,036	—
Unrestricted	—	—	—	(85,185)	(8,307,935)	1,915,707	3,130,564	(3,346,849)	355,086
Total net assets (deficit)	**—**	**1,205,431**	**239,458**	**155,598**	**(5,150,488)**	**2,564,751**	**3,792,279**	2,807,029	**504,484**
Total liabilities and net assets	**$ 7,386,000**	**$ 4,950,403**	**$ 11,413,668**	**$ 1,827,329**	**$ 5,162,776**	**$ 8,437,962**	**$ 5,315,375**	$ 44,493,513	**$ 1,727,067**

(concluded)

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

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

Statement of Revenues, Expenses, and Changes in Fund Net Assets

Proprietary Funds

Year Ended June 30, 2012

(amounts in thousands)

				Business-type Activities - Enterprise Funds					Governmental Activities
	Electric Power	Water Resources	Public Building Construction	State Lottery	Unemployment Programs	California State University	Nonmajor Enterprise	Total	Internal Service Funds
OPERATING REVENUES									
Unemployment and disability insurance	$ —	$ —	$ —	$ —	$ 21,947,781	$ —	$ —	$ 21,947,781	$ —
Lottery ticket sales	—	—	—	4,371,493	—	—	—	4,371,493	—
Power sales	34,000	148,360	—	—	—	—	—	182,360	—
Student tuition and fees	—	—	—	—	—	2,065,126	—	2,065,126	—
Services and sales	—	897,452	—	—	—	424,652	81,575	1,403,679	2,308,872
Investment and interest	—	—	4,012	—	—	—	128,309	132,321	—
Rent	—	—	409,142	—	—	—	11,906	421,048	—
Grants and contracts	—	—	—	—	—	92,915	—	92,915	—
Other	—	—	13,806	—	—	177,126	1,262	192,194	—
Total operating revenues	**34,000**	**1,045,812**	**426,960**	**4,371,493**	**21,947,781**	**2,759,819**	**223,052**	**30,808,917**	**2,308,872**
OPERATING EXPENSES									
Lottery prizes	—	—	—	2,560,307	—	—	—	2,560,307	—
Power purchases (net of recoverable power costs)	8,000	271,377	—	—	—	—	—	279,377	—
Personal services	—	258,226	—	62,938	168,430	3,774,537	14,819	4,278,950	842,828
Supplies	—	—	—	4,886	—	1,162,856	—	1,167,742	13,298
Services and charges	21,000	322,801	13,211	437,361	96,179	—	83,952	974,504	1,419,274
Depreciation	—	87,400	—	7,751	2,796	235,825	304	334,076	47,686
Scholarships and fellowships	—	—	—	—	—	833,487	—	833,487	—
Distributions to beneficiaries	—	—	—	—	20,837,244	—	—	20,837,244	—
Interest expense	—	—	384,400	—	—	—	66,526	450,926	—
Amortization (recovery) of deferred charges	—	—	6,242	—	—	—	4,115	10,357	—
Other	—	—	—	—	—	—	1,303	1,303	—
Total operating expenses	**29,000**	**939,804**	**403,853**	**3,073,243**	**21,104,649**	**6,006,705**	**171,019**	**31,728,273**	**2,323,086**
Operating income (loss)	5,000	106,008	23,107	1,298,250	843,132	(3,246,886)	52,033	(919,356)	(14,214)
NONOPERATING REVENUES (EXPENSES)									
Donations and grants	—	—	—	—	—	1,249,995	—	1,249,995	—
Private gifts	—	—	—	—	—	39,835	—	39,835	—
Investment and interest income	881,000	—	—	112,433	—	59,067	2,546	1,055,046	922
Interest expense and fiscal charges	(886,000)	(107,770)	—	(58,226)	(7,009)	(174,692)	(4,984)	(1,238,681)	(664)
Lottery payments for education	—	—	—	(1,300,240)	—	—	—	(1,300,240)	—
Other	—	1,762	1,300	365	—	56,402	(8,809)	51,020	(370)
Total nonoperating revenues (expenses)	**(5,000)**	**(106,008)**	**1,300**	**(1,245,668)**	**(7,009)**	**1,230,607**	**(11,247)**	**(143,025)**	**(112)**
Income (loss) before capital contributions and transfers	—	—	24,407	52,582	836,123	(2,016,279)	40,786	(1,062,381)	(14,326)
Capital contributions	—	—	—	—	—	—	106,057	106,057	—
Transfers in	—	—	386	—	—	2,031,706	—	2,032,092	184
Transfers out	—	—	—	—	—	—	(1,060)	(1,060)	(55,729)
Change in net assets	—	—	24,793	52,582	836,123	15,427	145,783	1,074,708	(69,871)
Total net assets (deficit), July 1, 2011	**—**	**1,205,431**	**214,665**	**103,016**	**(5,986,611) ***	**2,549,324**	**3,646,496 ***	**1,732,321**	**574,355**
Total net assets (deficit), June 30, 2012	**$ —**	**$ 1,205,431**	**$ 239,458**	**$ 155,598**	**$ (5,150,488)**	**$ 2,564,751**	**$ 3,792,279**	**$ 2,807,029**	**$ 504,484**

*Restated

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Statement of Cash Flows

Proprietary Funds

Year Ended June 30, 2012

(amounts in thousands)

			Business-type Activities - Enterprise Funds						Governmental Activities
	Electric Power	Water Resources	Public Building Construction	State Lottery	Unemployment Programs	California State University	Nonmajor Enterprise	Total	Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES									
Receipts from customers/employers	$ 132,000	$ 1,045,826	$ 774,056	$ 4,350,800	$ 21,193,303	$ 2,506,106	$ 126,739	$ 30,128,830	$ 2,307,451
Receipts from interfund services provided	—	—	—	—	17,030	—	3,301	20,331	146,624
Payments to suppliers	(926,000)	(478,686)	(13,635)	(171,001)	(96,180)	(997,337)	(91,499)	(2,774,338)	(1,460,582)
Payments to employees	—	(258,226)	—	(49,362)	(145,677)	(3,724,608)	(6,104)	(4,183,977)	(759,781)
Payments for interfund services used	—	—	—	(107,465)	—	—	(298)	(107,763)	(54,371)
Payments for Lottery prizes	—	—	—	(2,752,982)	—	—	—	(2,752,982)	—
Claims paid to other than employees	—	—	—	(295,818)	(20,898,564)	—	(4)	(21,194,386)	—
Other receipts (payments)	35,000	(36,488)	(378,548)	105,959	(651,320)	(560,295)	202,471	(1,283,221)	(12,771)
Net cash provided by (used in) operating activities	**(759,000)**	**272,426**	**381,873**	**1,080,131**	**(581,408)**	**(2,776,134)**	**234,606**	**(2,147,506)**	**166,570**
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES									
Changes in interfund payables and loans payable	—	—	—	—	(1,989,046)	5,283	4,637	(1,979,126)	20,983
Proceeds from bonds	1,118,000	—	—	—	—	—	321,585	1,439,585	—
Receipts of bond charges	855,000	—	—	—	—	—	—	855,000	—
Retirement of general obligation bonds	—	—	—	—	—	—	(363,500)	(363,500)	—
Retirement of revenue bonds	(1,676,000)	—	—	—	—	—	(120,170)	(1,796,170)	—
Interest paid on operating debt	(354,000)	—	—	—	—	—	(5,954)	(359,954)	(1)
Transfers in	—	—	386	—	—	1,927,663	—	1,928,049	3,531
Transfers out	—	—	—	—	—	—	(10,552)	(10,552)	(55,729)
Grants received/(provided)	—	—	—	—	—	1,317,943	(83)	1,317,860	—
Lottery payments for education	—	—	—	(1,314,010)	—	—	—	(1,314,010)	—
Net cash provided by (used in) noncapital financing activities	**(57,000)**	**—**	**386**	**(1,314,010)**	**(1,989,046)**	**3,250,889**	**(174,037)**	**(282,818)**	**(31,216)**
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES									
Changes in interfund payables and loans payable	—	—	—	—	—	—	13	13	—
Acquisition of capital assets	—	(98,887)	(850,627)	(6,441)	(91,404)	(375,349)	(710)	(1,423,418)	(40,524)
Proceeds from sale of capital assets	—	—	—	135	—	278	150	563	1,419
Proceeds from notes payable and commercial paper	—	75,444	—	—	—	46,793	—	122,237	—
Principal paid on notes payable and commercial paper	—	(101,239)	—	—	—	—	—	(101,239)	(17,367)
Proceeds from capital leases	—	—	—	—	—	22,523	—	22,523	—
Payment on capital debt and leases	—	—	—	—	—	(394,424)	—	(394,424)	—
Retirement of general obligation bonds	—	(58,165)	—	—	—	—	—	(58,165)	—
Proceeds from revenue bonds	—	395,249	2,470,233	—	—	587,165	—	3,452,647	—
Retirement of revenue bonds	—	(399,366)	(405,585)	—	—	(217,328)	—	(1,022,279)	—
Interest paid	—	(139,367)	—	—	—	—	—	(139,367)	(663)
Grants received	—	—	—	—	—	20,462	108,641	129,103	—
Net cash provided by (used in) capital and related financing activities	**—**	**(326,331)**	**1,214,021**	**(6,306)**	**(91,404)**	**(309,880)**	**108,094**	**588,194**	**(57,135)**
CASH FLOWS FROM INVESTING ACTIVITIES									
Purchase of investments	—	(302,608)	—	(182,220)	—	(12,432,094)	—	(12,916,922)	—
Proceeds from maturity and sale of investments	—	302,608	—	307,503	2,798,647	12,266,828	2,987	15,678,573	—
Change in interfund receivables and loans receivable	—	1,898	—	—	(51,468)	—	3,523	(46,047)	(52,995)
Earnings (loss) on investments	23,000	6,990	—	25,106	(7,008)	39,596	2,645	90,329	907
Net cash provided by (used in) investing activities	**23,000**	**8,888**	**—**	**150,389**	**2,740,171**	**(125,670)**	**9,155**	**2,805,933**	**(52,088)**
Net increase (decrease) in cash and pooled investments	(793,000)	(45,017)	1,596,280	(89,796)	78,313	39,205	177,818	963,803	26,131
Cash and pooled investments at July 1, 2011	**2,658,000**	**530,667**	**1,207,412**	**279,173**	**2,006,941 ***	**406,137**	**531,753 ***	**7,620,083**	**707,104**
Cash and pooled investments at June 30, 2012	**$ 1,865,000**	**$ 485,650**	**$ 2,803,692**	**$ 189,377**	**$ 2,085,254**	**$ 445,342**	**$ 709,571**	**$ 8,583,886**	**$ 733,235**

(continued)

* Restated

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

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

Statement of Cash Flows (continued)

Proprietary Funds

Year Ended June 30, 2012

(amounts in thousands)

	Electric Power	Water Resources	Business-type Activities - Enterprise Funds: Public Building Construction	State Lottery	Unemployment Programs	California State University	Nonmajor Enterprise	Total	Governmental Activities: Internal Service Funds
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES									
Operating income (loss)	$ 5,000	$ 106,008	$ 23,107	$ 1,298,250	$ 843,132	$ (3,246,886)	$ 52,033	$ (919,356)	$ (14,214)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:									
Interest expense on operating debt	—	—	—	—	—	—	—	—	740
Depreciation	—	87,400	—	7,751	2,796	235,825	304	334,076	47,686
Provisions and allowances	—	—	—	7,732	—	—	4,596	12,328	—
Accrual of deferred charges	—	—	(16,850)	—	—	—	—	(16,850)	—
Amortization of discounts	—	—	—	—	—	—	67	67	—
Amortization of deferred charges	—	52,072	(269)	1,372	—	—	8,219	61,394	—
Other	—	(36,488)	588	241	—	40,551	116,548	121,440	—
Change in assets and liabilities:									
Receivables	—	(29,868)	—	(48,941)	(1,057,585)	(31,219)	888	(1,166,725)	17,971
Due from other funds	—	—	(6,901)	(44)	38,527	—	1,485	33,067	114,728
Due from other governments	—	3,838	—	—	(83,499)	—	(2,780)	(82,441)	1,207
Prepaid items	—	—	—	—	—	(5,855)	4	(5,851)	4,700
Inventories	—	3,331	—	(1,232)	—	—	(104)	1,995	964
Net investment in direct financing leases	—	—	372,145	—	—	—	16,946	389,091	—
Recoverable power costs (net)	(686,000)	—	—	—	—	—	—	(686,000)	—
Other current assets	37,000	—	—	(4)	(180)	—	(8,293)	28,523	—
Loans receivable	—	—	—	—	—	—	(114,960)	(114,960)	—
Interfund receivable	—	—	—	(93,928)	(310,136)	—	168,773	(235,291)	—
Accounts payable	(115,000)	57,612	469	(10,570)	(1)	(2,650)	(2,719)	(72,859)	(47,266)
Due to other funds	—	(2,523)	898	(27)	(266,809)	—	861	(267,600)	(22,123)
Due to component units	—	—	—	—	—	—	—	—	(415)
Due to other governments	—	31,044	(662)	—	(8,682)	—	283	21,983	(191)
Deposits	—	—	—	—	—	7	(11)	(4)	6,847
Contracts and notes payable	—	—	—	—	—	—	—	—	(391)
Advance collections	—	—	(981)	(307)	309,785	—	(29)	308,468	(30,698)
Interest payable	—	—	10,329	—	—	—	(95)	10,234	—
Other current liabilities	—	—	—	—	(4,602)	(1,135)	(245)	(5,982)	(6,367)
Interfund payables	—	—	—	—	—	—	—	—	298
Deferred revenue	—	—	—	—	—	19,868	(72)	19,796	—
Benefits payable	—	—	—	—	(66,907)	8,746	(2,593)	(60,754)	34,448
Lottery prizes and annuities	—	—	—	(86,938)	—	—	—	(86,938)	—
Compensated absences payable	—	—	—	485	2,777	(3,171)	35	126	23,943
Capital lease obligations	—	—	—	—	—	—	—	—	12,731
Other noncurrent liabilities	—	—	—	6,291	19,976	209,785	(4,535)	231,517	21,972
Total adjustments	(764,000)	166,418	358,766	(218,119)	(1,424,540)	470,752	182,573	(1,228,150)	180,784
Net cash provided by (used in) operating activities	**$ (759,000)**	**$ 272,426**	**$ 381,873**	**$ 1,080,131**	**$ (581,408)**	**$ (2,776,134)**	**$ 234,606**	**$ (2,147,506)**	**$ 166,570**
Noncash investing, capital, and financing activities									
Interest accreted on annuitized prizes	$ —	$ —	$ —	$ 58,226	$ —	$ —	$ —	$ 58,226	$ —
Interest accreted on bonds and other capitalized interest	—	—	—	20,408	—	—	—	20,408	—
Unclaimed Lottery prizes directly transferred to Education Fund	—	—	—	20,486	—	—	—	20,486	—
Unrealized gain (loss) on investment	—	—	—	67,517	—	—	—	67,517	—
Capital acquisitions financed through notes payable	—	—	—	—	—	—	—	—	14,701
Contributed capital assets	—	—	—	—	—	14,995	—	14,995	—
Acquisition of capital assets through capital lease	—	—	—	—	—	2,536	—	2,536	—
Change in accrued capital assets purchases	—	—	—	—	—	(4,887)	—	(4,887)	—
Gifts in-kind	—	—	—	—	—	483	—	483	—
Miscellaneous related to auxiliary organizations and capital assets	—	—	—	—	—	2,523	—	2,523	—
Amortization of bond premium and discount	—	—	—	—	—	5,053	—	5,053	—
Amortization of loss on refundings	—	—	—	—	—	1,926	—	1,926	—

(concluded)

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

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

Statement of Fiduciary Net Assets

Fiduciary Funds and Similar Component Units

June 30, 2012
(amounts in thousands)

	Private Purpose Trust	Pension and Other Employee Benefit Trust	Investment Trust Local Agency Investment	Agency
ASSETS				
Cash and pooled investments	$ 63,108	$ 3,457,692	$ 21,907,654	$ 2,172,983
Investments, at fair value:				
Short-term	—	6,310,193	—	—
Equity securities	2,169,921	193,004,844	—	—
Debt securities	1,454,642	82,474,137	—	—
Real estate	156,291	47,617,461	—	—
Other	720,767	67,237,953	—	—
Securities lending collateral	—	33,099,162	—	—
Total investments	4,501,621	429,743,750	—	—
Receivables (net)	63,190	3,535,663	—	1,142,279
Due from other funds	1	460,207	—	21,653,069
Due from other governments	—	11	—	59,811
Prepaid items	—	—	—	26,219
Interfund receivables	48,163	—	—	1,050,927
Loans receivable	—	—	—	7,942
Other assets	173,488	960,418	—	85
Total assets	**4,849,571**	**438,157,741**	**21,907,654**	**$ 26,113,315**
LIABILITIES				
Accounts payable	10,656	1,630,861	—	$ 8,528,691
Due to other governments	—	100,073	24,191	15,749,796
Tax overpayments	—	—	—	4,386
Benefits payable	—	378,854	—	199,087
Deposits	173,487	—	—	806,951
Advance collections	—	—	—	18,705
Securities lending obligations	—	32,968,629	—	—
Loans payable	—	1,011,158	—	—
Other liabilities	307	734,266	—	805,699
Total liabilities	**184,450**	**36,823,841**	**24,191**	**$ 26,113,315**
NET ASSETS				
Held in trust for pension benefits, pool participant and other purposes	**$ 4,665,121**	**$ 401,333,900**	**$ 21,883,463**	

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

Statement of Changes in Fiduciary Net Assets

Fiduciary Funds and Similar Component Units

Year Ended June 30, 2012
(amounts in thousands)

	Private Purpose Trust	Pension and Other Employee Benefit Trust	Investment Trust Local Agency Investment
ADDITIONS			
Contributions:			
Employer	$ —	$ 12,370,126	$ —
Plan member	—	6,622,367	—
Total contributions	—	18,992,493	—
Investment income:			
Net appreciation (depreciation) in fair value of investments	(3,090)	(4,155,777)	—
Interest, dividends, and other investment income	127,878	8,109,519	84,972
Less: investment expense	(27,188)	(3,002,548)	—
Net investment income	97,600	951,194	84,972
Receipts from depositors	1,857,314	—	25,938,778
Other	—	28,975	—
Total additions	**1,954,914**	**19,972,662**	**26,023,750**
DEDUCTIONS			
Distributions paid and payable to participants	—	26,882,378	83,374
Refunds of contributions	—	329,016	—
Administrative expense	4	541,461	1,598
Payments to and for depositors	1,914,970	509,673	28,037,187
Total deductions	**1,914,974**	**28,262,528**	**28,122,159**
Change in net assets	39,940	(8,289,866)	(2,098,409)
Net assets, July 1, 2011	**4,625,181**	**409,623,766**	**23,981,872**
Net assets, June 30, 2012	**$ 4,665,121**	**$ 401,333,900**	**$ 21,883,463**

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

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

Discretely Presented Component Units Financial Statements

Statement of Net Assets

Discretely Presented Component Units - Enterprise Activity

June 30, 2012
(amounts in thousands)

	University of California	State Compensation Insurance	California Housing Finance Agency	Public Employees' Benefits	Nonmajor Component Units	Total
ASSETS						
Current assets:						
Cash and pooled investments	$ 234,560	$ 130,128	$ 1,872,182	$ 74,457	$ 527,416	$ 2,838,743
Investments	4,642,005	1,552,387	339,955	10,306	301,577	6,846,230
Restricted assets:						
Cash and pooled investments	—	—	—	—	85,918	85,918
Investments	—	—	—	—	36,556	36,556
Receivables (net)	3,090,955	333,950	224,219	1,765	324,135	3,975,024
Due from primary government	1,191,072	—	—	108,410	696	1,300,178
Due from other governments	713,676	—	—	32,944	—	746,620
Prepaid items	—	—	442	—	941	1,383
Inventories	180,592	—	—	—	258	180,850
Other current assets	235,696	6,293	86,273	—	39,815	368,077
Total current assets	10,288,556	2,022,758	2,523,071	227,882	1,317,312	16,379,579
Noncurrent assets:						
Restricted assets:						
Cash and pooled investments	—	—	—	—	91,539	91,539
Investments	—	—	—	—	5,344	5,344
Investments	21,088,966	18,850,967	577,505	4,040,671	1,303,466	45,861,575
Receivables (net)	1,062,370	123,992	—	—	263,052	1,449,414
Loans receivable	—	—	5,295,050	—	345,803	5,640,853
Deferred charges	—	—	23,860	—	1,219	25,079
Capital assets:						
Land	780,082	62,874	—	—	122,201	965,157
Collections – nondepreciable	344,451	—	—	—	7,718	352,169
Buildings and other depreciable property	37,551,359	529,622	2,153	—	1,932,983	40,016,117
Intangible assets – amortizable	470,701	167,430	—	—	19,810	657,941
Less: accumulated depreciation/amortization	(16,748,710)	(360,498)	(1,034)	—	(894,519)	(18,004,761)
Construction in progress	2,785,835	6,319	—	—	19,650	2,811,804
Intangible assets – nonamortizable	—	—	—	—	5,213	5,213
Other noncurrent assets	369,888	—	328,766	—	55,379	754,033
Total noncurrent assets	47,704,942	19,380,706	6,226,300	4,040,671	3,278,858	80,631,477
Total assets	**$ 57,993,498**	**$ 21,403,464**	**$ 8,749,371**	**$ 4,268,553**	**$ 4,596,170**	**$ 97,011,056**

(continued)

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Statement of Net Assets (continued)

Discretely Presented Component Units - Enterprise Activity

	University of California	State Compensation Insurance	California Housing Finance Agency	Public Employees' Benefits	Nonmajor Component Units	Total
LIABILITIES						
Current liabilities:						
Accounts payable	$ 2,035,169	$ 46,383	$ 96,176	$ 402,678	$ 92,219	$ 2,672,625
Due to other governments	—	—	19,881	—	—	19,881
Deferred revenue	899,351	—	—	—	72,106	971,457
Deposits	459,718	—	227,246	—	2,329	689,293
Contracts and notes payable	—	—	—	—	21,139	21,139
Advance collections	—	60,271	23,569	—	182	84,022
Interest payable	—	—	84,955	—	2,093	87,048
Securities lending obligations	1,695,677	—	—	—	—	1,695,677
Benefits payable	—	1,642,424	—	—	—	1,642,424
Current portion of long-term obligations	1,913,409	68,043	111,536	37,710	152,258	2,282,956
Other current liabilities	2,490,272	152,089	353	72,388	122,322	2,837,424
Total current liabilities	9,493,596	1,969,210	563,716	512,776	464,648	13,003,946
Noncurrent liabilities:						
Benefits payable	—	11,745,923	—	3,440,593	—	15,186,516
Compensated absences payable	258,300	—	—	—	15,200	273,500
Certificates of participation, commercial paper, and other borrowings	—	—	—	—	56,611	56,611
Capital lease obligations	2,504,552	—	—	—	354,744	2,859,296
Revenue bonds payable	12,319,438	—	6,490,172	—	454,717	19,264,327
Net other postemployment benefits obligation	6,447,678	401,953	13,891	13,358	128,258	7,005,138
Other noncurrent liabilities	3,565,909	202,475	324,224	—	206,830	4,299,438
Total noncurrent liabilities	25,095,877	12,350,351	6,828,287	3,453,951	1,216,360	48,944,826
Total liabilities	**34,589,473**	**14,319,561**	**7,392,003**	**3,966,727**	**1,681,008**	61,948,772
NET ASSETS						
Investment in capital assets, net of related debt	11,359,688	405,747	1,142	—	531,299	12,297,876
Restricted:						
Nonexpendable -endowments	3,643,677	—	—	—	825,023	4,468,700
Expendable:						
Endowments and gifts	7,418,193	—	—	—	5,572	7,423,765
Education	934,910	—	—	—	657,483	1,592,393
Indenture	—	—	323,271	—	—	323,271
Employee benefits	—	—	—	461,552	—	461,552
Workers' compensation liability	—	6,678,156	—	—	—	6,678,156
Statute	—	—	1,125,422	—	273,769	1,399,191
Other purposes	—	—	(655)	—	126,374	125,719
Total expendable	8,353,103	6,678,156	1,448,038	461,552	1,063,198	18,004,047
Unrestricted	47,557	—	(91,812)	(159,726)	495,642	291,661
Total net assets	**23,404,025**	**7,083,903**	**1,357,368**	**301,826**	**2,915,162**	35,062,284
Total liabilities and net assets	**$ 57,993,498**	**$ 21,403,464**	**$ 8,749,371**	**$ 4,268,553**	**$ 4,596,170**	$ 97,011,056

(concluded)

Statement of Activities

Discretely Presented Component Units - Enterprise Activity

Year Ended June 30, 2012
(amounts in thousands)

	University of California	State Compensation Insurance	California Housing Finance Agency	Public Employees' Benefits	Nonmajor Component Units	Total
OPERATING EXPENSES						
Personal services	$ 16,616,866	$ 733,504	$ 30,460	$ —	$ 471,448	$ 17,852,278
Scholarships and fellowships	598,943	—	—	—	45,873	644,816
Supplies	2,381,963	—	—	—	8,090	2,390,053
Services and charges	279,795	95,163	34,008	3,112,279	1,146,408	4,667,653
Department of Energy laboratories	1,007,804	—	—	—	—	1,007,804
Depreciation	1,477,281	32,535	278	—	72,047	1,582,141
Distributions to beneficiaries	—	638,653	—	—	—	638,653
Interest expense and fiscal charges	631,619	—	191,265	—	40,997	863,881
Amortization of deferred charges		83,235	105,833	—	111	189,179
Grants provided	199,893	—	—	—	—	199,893
Other	3,110,066	134,971	168,930	902	65,698	3,480,567
Total operating expenses	**26,304,230**	**1,718,061**	**530,774**	**3,113,181**	**1,850,672**	33,516,918
PROGRAM REVENUES						
Charges for services	14,318,472	936,786	408,252	2,185,066	1,065,852	18,914,428
Operating grants and contributions	7,617,794	—	75,142	—	559,922	8,252,858
Capital grants and contributions	198,023	—	—	—	13,628	211,651
Total program revenues	**22,134,289**	**936,786**	**483,394**	**2,185,066**	**1,639,402**	27,378,937
Net revenues (expenses)	(4,169,941)	(781,275)	(47,380)	(928,115)	(211,270)	(6,137,981)
GENERAL REVENUES						
Investment and interest income (loss)	290,639	1,396,473	—	150,967	(1,315)	1,836,764
Other	2,108,620	177,787	18,595	32,810	273,212	2,611,024
Total general revenues	**2,399,259**	**1,574,260**	**18,595**	**183,777**	**271,897**	4,447,788
Change in net assets	(1,770,682)	792,985	(28,785)	(744,338)	60,627	(1,690,193)
Net assets, July 1, 2011	**25,174,707**	**6,290,918**	**1,386,153 ***	**1,046,164**	**2,854,535 ***	36,752,477
Net assets, June 30, 2012	**$ 23,404,025**	**$ 7,083,903**	**$ 1,357,368**	**$ 301,826**	**$ 2,915,162**	$ 35,062,284

* Restated

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

Notes to the Financial Statements - Index

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Notes to the Financial Statements

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements present information on the financial activities of the State of California over which the Governor, the Legislature, and other elected officials have direct or indirect governing and fiscal control. These financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). The provisions of the following Governmental Accounting Standards Board (GASB) Statements have been implemented for the year ended June 30, 2012:

GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans; and*

GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions.*

A. Reporting Entity

These financial statements present the primary government of the State and its component units. The **primary government** consists of all funds, organizations, institutions, agencies, departments, and offices that are not legally separate from the State. **Component units** are organizations that are legally separate from the State but for which the State is financially accountable or organizations whose relationship with the State is such that exclusion would cause the State's financial statements to be misleading or incomplete. The decision to include a component unit in the State's reporting entity is based on several criteria, including legal standing, fiscal dependency, and financial accountability. Following is information on the blended, fiduciary, and discretely presented component units of the State.

1. Blended Component Units

Blended component units, although legally separate entities, are in substance part of the primary government's operations. Therefore, data from these blended component units are integrated into the appropriate funds for reporting purposes.

Building authorities are blended component units because they have been created through the use of joint exercise-of-powers agreements with various cities to finance the construction of state buildings. The building authorities are reported as capital projects funds. As a result, capital lease arrangements between the building authorities and the State have been eliminated from the financial statements. Instead, only the underlying capital assets and the debt used to acquire them are reported in the government-wide financial statements. For information regarding obtaining copies of the financial statements of the building authorities, contact the State Controller's Office, Division of Accounting and Reporting, P.O. Box 942850, Sacramento, California 94250-5872.

The *Golden State Tobacco Securitization Corporation (GSTSC)* is a not-for-profit corporation established through legislation in September 2002 solely for the purpose of purchasing Tobacco Settlement Revenues from the State. The five voting members of the State Public Works Board serve ex officio as the directors of the corporation. GSTSC is authorized to issue bonds as necessary to provide sufficient funds for carrying out its purpose. GSTSC is reported in the combining statements in the Nonmajor Governmental Funds section as a special revenue fund. For information regarding obtaining copies of the financial statements of GSTSC, contact the Department of Finance, Natural Resources, Energy, Environmental, and Capital Outlay Section, 915 L Street, 9th Floor, Sacramento, California 94814.

2. Fiduciary Component Units

The State has two fiduciary component units that administer pension and other employee benefit trust funds. These entities are legally separate from the State and meet the definition of a component unit because they are fiscally dependent on the State; however, due to their fiduciary nature, they are presented in the Fiduciary Fund Statements as pension and other employee benefit trust funds, along with other primary government fiduciary funds.

The *California Public Employees' Retirement System (CalPERS)* administers pension and health benefit plans for state employees, non-teaching school employees, and employees of California public agencies. Its Board of Administration has plenary authority and fiduciary responsibility for the investment of monies and the administration of the plans. CalPERS administers the following seven pension and other employee benefit trust funds: the Public Employees' Retirement Fund, the Judges' Retirement Fund, the Judges' Retirement Fund II, the Legislators' Retirement Fund, the State Peace Officers' and Firefighters' Defined Contribution Plan Fund, the public agency Deferred Compensation Program, and the public employee Supplemental Contributions Program Fund. Copies of CalPERS' separately issued financial statements may be obtained in writing from the California Public Employees' Retirement System, Fiscal Services Division, P.O. Box 942703, Sacramento, California 94229-2703.

The *California State Teachers' Retirement System (CalSTRS)* administers pension benefit plans for California public school teachers and certain other employees of the public school system. CalSTRS administers four pension and other employee benefit trust funds: the State Teachers' Retirement Fund; the Teachers' Health Benefits Fund; the Pension2 Program; and the Teachers' Deferred Compensation Fund. Copies of CalSTRS' separately issued financial statements may be obtained from the California State Teachers' Retirement System, P.O. Box 15275, Sacramento, California 95851-0275.

3. Discretely Presented Component Units

Enterprise activity of discretely presented component units is reported in a separate column in the government-wide financial statements. Discretely presented component units are legally separate from the primary government and primarily provide services to entities and individuals outside the primary government. Discretely presented component units that report enterprise activity include the University of California, the State Compensation Insurance Fund, the California Housing Finance Agency, the Public Employees' Benefits Fund, and nonmajor component units.

The *University of California* was founded in 1868 as a public, state-supported, land grant institution. It was written into the State Constitution of 1879 as a public trust to be administered by a governing board, the Regents of the University of California (Regents). The University of California is a component unit of the State because the State appoints a voting majority of the Regents and because expenditures for the support of various university programs and capital outlay are appropriated by the annual Budget Act. The University of California offers defined benefit pension plans and defined contribution pension plans to its employees through the University of California Retirement System (UCRS), a fiduciary responsibility of the Regents. The financial information of the UCRS is not included in the financial statements of this report due to its fiduciary nature. Copies of the University of California's financial statements may be obtained from the University of California, Financial Accounting, 1111 Franklin Street, 10th Floor, Oakland, California 94607-5200.

The *State Compensation Insurance Fund* (*State Fund*) is a public enterprise fund established by the State of California through legislation enacted in 1913 to provide an available market for workers' compensation insurance to employers located in California. State Fund operates in competition with other insurance carriers to serve California businesses. It is a component unit of the State because the State appoints all 11 voting members of State Fund's governing board and has the authority to approve or modify State Fund's budget.

Copies of State Fund's financial statements for the year ended December 31, 2011 may be obtained from the State Compensation Insurance Fund, 333 Bush Street, San Francisco, California 94104-2806.

The *California Housing Finance Agency (CalHFA)* was created by the Zenovich-Moscone-Chacon Housing and Home Finance Act, as amended. CalHFA's purpose is financing the housing needs of persons and families of low and moderate income. It is a component unit of the State because the State appoints a voting majority of CalHFA's governing board and has the authority to approve or modify its budget. Copies of CalHFA's financial statements may be obtained from the California Housing Finance Agency, P.O. Box 4034, Sacramento, California 95812.

The *Public Employees' Benefits Fund*, which is administered by CalPERS, accounts for contributions and premiums for public employee long-term care plans and for administration of a deferred compensation program. Copies of CalPERS' separately issued financial statements may be obtained in writing from the California Public Employees' Retirement System, Fiscal Services Division, P.O. Box 942703, Sacramento, California 94229-2703.

State legislation created various *nonmajor component units* to provide certain services outside the primary government and to provide certain private and public entities with a low-cost source of financing for programs deemed to be in the public interest. The California Pollution Control Financing Authority, the San Joaquin River Conservancy, and district agricultural associations are considered component units because they have a fiscal dependency on the primary government. The California Educational Facilities Authority is considered a component unit because its exclusion from the financial statements would be misleading because of its relationship to the primary government. California State University auxiliary organizations are considered component units because they exist entirely or almost entirely for the direct benefit of the universities. The remaining nonmajor component units are considered component units because the majority of members of their governing boards are appointed by or are members of the primary government, because the primary government can impose its will on the entity, or because the entity provides a specific financial benefit to the primary government. For information regarding obtaining copies of the financial statements of these component units, contact the State Controller's Office, Division of Accounting and Reporting, P.O. Box 942850, Sacramento, California 94250-5872.

The nonmajor component units are:

The *California Alternative Energy and Advanced Transportation Financing Authority*, which provides financing for alternative energy and advanced transportation technologies;

The *California Infrastructure and Economic Development Bank*, which provides financing for business development and public improvements;

The *California Pollution Control Financing Authority*, which provides financing for pollution control facilities;

The *California Health Facilities Financing Authority*, which provides financing for the construction, equipping, and acquisition of health facilities;

The *California Educational Facilities Authority*, which issues revenue bonds to finance loans for students attending public and private nonprofit colleges and universities and to assist private educational institutions of higher learning in financing the expansion and construction of educational facilities (the EdFund financial report included in this entity is as of and for the year ended September 30, 2011);

The *California School Finance Authority,* which provides loans to school and community college districts to assist them in obtaining equipment and facilities;

California State University auxiliary organizations, which provide services primarily to university students through foundations, associated student organizations, student unions, food service entities, book stores, and similar organizations;

District agricultural associations, which exhibit all of the industries, industrial enterprises, resources, and products of the state (the district agricultural association's financial report is as of and for the year ended December 31, 2011);

The *University of California Hastings College of the Law*, which was established as the law department of the University of California to provide legal education programs and operates independently under its own board of directors. The college has a discretely presented component unit, the Foundation, which provides private sources of funds for academic programs, scholarships, and faculty research;

The *San Joaquin River Conservancy*, which was created to acquire and manage public lands within the San Joaquin River Parkway;

The *State Assistance Fund for Enterprise, Business and Industrial Development Corporation*, which provides financial assistance to small business; and

The *California Urban Waterfront Area Restoration Financing Authority*, which provides financing for coastal and inland urban waterfront restoration projects.

4. Joint Venture

A joint venture is an entity resulting from a contractual arrangement; it is owned, operated, or governed by two or more participants as a separate and specific activity subject to joint control. In such an arrangement, the participants retain an ongoing financial interest or an ongoing financial responsibility in the entity. These entities are not part of the primary government or a component unit.

The State participates in a joint venture called the *Capitol Area Development Authority (CADA)*. CADA was created in 1978 by the joint exercise of powers agreement between the primary government and the City of Sacramento for the location of state buildings and other improvements. CADA is a public entity, separate from the primary government and the city, and is administered by a board of five members: two appointed by the primary government, two appointed by the city, and one appointed by the affirmative vote of at least three of the other four members of the board. The primary government designates the chairperson of the board. Although the primary government does not have an equity interest in CADA, it does have an ongoing financial interest. Based upon the appointment authority, the primary government has the ability to indirectly influence CADA to undertake special projects for the citizenry of the participants. The primary government subsidizes CADA's operations by leasing land to CADA without consideration; however, the primary government is not obligated to do so. At June 30, 2012, CADA had total assets of $34 million, total liabilities of $21 million, and total net assets of $13 million. Total revenues for the fiscal year were $11 million and expenses were $13 million, resulting in a decrease in net assets of $3 million. Because the primary government does not have an equity interest in CADA, CADA's financial information is not included in the financial statements of this report. Separately issued financial statements may be obtained from the Capitol Area Development Authority, 1522 14th Street, Sacramento, California 95814-5958.

5. Related Organizations

A related organization is an organization for which a primary government is accountable because that government appoints a voting majority of the organization's governing board, but for which it is not financially accountable.

Chapter 854 of the Statutes of 1996 created an *Independent System Operator (ISO)*, a state-chartered, nonprofit market institution. The ISO provides centralized control of the statewide electrical transmission grid to ensure the efficient use and reliable operation of the transmission system. The ISO is governed by a five-member board, the members of which are appointed by the Governor and confirmed by the Senate. The State's accountability for this institution does not extend beyond making the initial oversight board appointments. Because the primary government is not financially accountable for the ISO, the financial information of this institution is not included in the financial statements of this report. For information regarding obtaining copies of the financial statements of the ISO, contact the State Controller's Office, Division of Accounting and Reporting, P.O. Box 942850, Sacramento, California 94250-5872.

The *California Earthquake Authority (CEA)*, a legally separate organization, offers earthquake insurance for California homeowners, renters, condominium owners, and mobile home owners. A three-member board of state-elected officials governs the CEA. The State's accountability for this institution does not extend beyond making the appointments. Because the primary government is not financially accountable for the CEA, the financial information of this institution is not included in the financial statements of this report. For information regarding obtaining copies of the financial statements of the CEA, contact the California Earthquake Authority, 801 K Street, Suite 1000, Sacramento, California 95814.

The *Bay Area Toll Authority (BATA)*, which is not part of the State's reporting entity, was created by the California Legislature in 1997 to administer a portion of the toll revenues collected from the San Francisco Bay Area's seven state-owned toll bridges, and to have program oversight related to certain bridge construction projects. In 2005, the California Legislature transferred toll-bridge administration responsibility from the California Department of Transportation (Caltrans) to BATA. This responsibility includes consolidation of all toll-bridge revenue under BATA's administration. BATA is a blended component unit of the Metropolitan Transportation Commission. Additional information may be obtained from the Metropolitan Transportation Commission, 101 Eighth Street, Oakland, California 94607.

B. Government-wide and Fund Financial Statements

Government-wide financial statements (the Statement of Net Assets and the Statement of Activities) give information on all the nonfiduciary activities of the primary government and its component units. The primary government is reported separately from legally separate component units for which the State is financially accountable. Within the primary government, the State's governmental activities, which are normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The effect of interfund activity has been removed from the statements, with the exception of amounts between governmental and business-type activities, which are presented as internal balances and transfers. Centralized services provided by the General Fund for other funds are charged as direct costs to the funds that received those services. Also, the General Fund recovers the cost of centralized services provided to federal programs from the federal government.

The Statement of Net Assets reports all of the financial and capital resources of the government as a whole in a format where assets equal liabilities plus net assets. The statement of activities demonstrates the degree to which the expenses of a given function are offset by program revenues. Program revenues include charges to customers who purchase, use, or directly benefit from goods, services, or privileges provided by a given function. Program revenues also include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items that are not program-related are reported as general revenues.

Fund financial statements are provided for governmental funds, proprietary funds, fiduciary funds and similar component units, and discretely presented component units. A fund is a fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The State maintains the minimum number of funds consistent with legal and managerial requirements. Fiduciary funds, although excluded from the government-wide statements, are included in the fund financial statements. Major governmental and enterprise funds are reported in separate columns in the fund financial statements. Nonmajor governmental and proprietary funds are grouped into separate columns. Discretely presented component unit statements, which follow the fiduciary fund statements, also separately report the enterprise activity of the major discretely presented component units. In this report, the enterprise activity of nonmajor discretely presented component units is grouped in a separate column.

Governmental fund types are used primarily to account for services provided to the general public without direct charge.

The State reports the following major governmental funds:

The *General Fund* is the main operating fund of the State. It accounts for transactions related to resources obtained and used for those services that do not need to be accounted for in another fund.

The *Federal Fund* accounts for the receipt and use of grants, entitlements, and shared revenues received from the federal government.

The *Transportation Fund* accounts for fuel taxes, including the State's diesel, motor vehicle, and fuel use taxes; bond proceeds; automobile registration fees; and other revenues that are used for transportation purposes, including highway and passenger rail construction and transportation safety programs.

The *Environmental and Natural Resources Fund* accounts for fees, bond proceeds, and other revenues that are used for maintaining the state's natural resources and improving the environmental quality of its air, land, and water.

Proprietary fund types focus on the determination of operating income, changes in net assets, financial position, and cash flows.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

For its proprietary funds, the State applies all applicable GASB pronouncements. In addition, the State applies all applicable Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Committee on Accounting Procedure (CAP) Accounting Research Bulletins issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements. The State has elected not to apply FASB pronouncements issued after November 30, 1989, for its enterprise funds.

The State has two proprietary fund types: enterprise funds and internal service funds.

Enterprise funds record business-type activity for which a fee is charged to external users for goods and services. In addition, the State is required to report activities as enterprise funds in the context of the activity's principal revenue sources when any of the following criteria are met:

- The activity's debt is secured solely by fees and charges of the activity;
- There is a legal requirement to recover costs; or
- The pricing policies of fees and charges are designed to recover costs.

The State reports the following major enterprise funds:

The *Electric Power Fund* accounts for the acquisition and resale of electric power to retail end-use customers.

The *Water Resources Fund* accounts for charges to local water districts and the sale of excess power to public utilities.

The *Public Building Construction Fund* accounts for rental charges from the lease of public assets.

The *State Lottery Fund* accounts for the sale of California State Lottery (Lottery) tickets and the Lottery's payments for education.

The *California State University Fund* accounts for student fees and other receipts from gifts, bequests, donations, federal and state grants, and loans that are used for educational purposes.

The *Unemployment Programs Fund* accounts for employer and worker contributions used for payments of unemployment insurance and disability benefits.

Nonmajor enterprise funds account for additional operations that are financed and operated in a manner similar to private business enterprises.

Additionally, the State reports *internal service funds* as a proprietary fund type with governmental activity. Internal service funds account for goods or services provided to other agencies, departments, or governments on a cost-reimbursement basis. The goods and services provided include: architectural services, construction and improvements, printing and procurement services, goods produced by inmates of state prisons, data processing services, and administrative services related to water delivery. Internal service funds are included in the governmental activities at the government-wide level.

Fiduciary fund types are used to account for assets held by the State. The State acts as a trustee or as an agent for individuals, private organizations, other governments, or other funds. Fiduciary funds, including fiduciary component units, are not included in the government-wide financial statements.

The State has the following four fiduciary fund types:

Private purpose trust funds account for all trust arrangements, other than those properly reported in pension or investment trust funds, whereby principal and income benefit individuals, private organizations, or other governments. The following are the State's largest private purpose trust funds:

The *Scholarshare Program Trust Fund* accounts for money received from participants to fund their beneficiaries' higher-education expenses at certain postsecondary educational institutions.

The *Unclaimed Property Fund* accounts for unclaimed money and properties held in trust by the State. Unclaimed property is remitted to the General Fund where it can be used by the State until it is claimed.

Pension and other employee benefit trust funds of the primary government and fiduciary component units account for transactions, assets, liabilities, and net assets available for plan benefits of the retirement systems and for other employee benefit programs.

An *investment trust fund* accounts for the deposits, withdrawals, and earnings of the Local Agency Investment Fund, an external investment pool for local governments and public agencies.

Agency funds account for assets held by the State, which acts as an agent for individuals, private organizations, or other governments. The following are the State's largest agency funds:

The *Receipting and Disbursing Fund* accounts for the collection and disbursement of revenues and receipts on behalf of local governments. This fund also accounts for receipts from numerous state funds, typically for the purpose of writing a single warrant when the warrant is funded by multiple funding sources.

The *Deposit Fund* accounts for various deposits, such as those from condemnation and litigation proceedings.

Discretely presented component units consist of certain organizations that have enterprise activity. The enterprise activity component units are the University of California, the State Compensation Insurance Fund, the California Housing Finance Agency, the Public Employees' Benefits Fund, and nonmajor component units. In this report, all of the enterprise activity of the discretely presented component units is reported in a separate column in the government-wide financial statements and on separate pages following the fund financial statements.

C. Measurement Focus and Basis of Accounting

1. Government-wide Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when they are earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar transactions are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

2. Fund Financial Statements

The measurement focus and basis of accounting for the fund financial statements vary with the type of fund. **Governmental fund types** are presented using the current financial resources measurement focus. With this measurement focus, operating statements present increases and decreases in net current assets; the unreserved fund balance is a measure of available spendable resources.

The accounts of the governmental fund types are reported using the modified accrual basis of accounting. Under the modified accrual basis, revenues are recorded as they become measurable and available, and expenditures are recorded at the time the liabilities are incurred. The State records revenue sources when they are earned or when they are due, provided they are measurable and available within the ensuing 12 months. Principal tax revenues susceptible to accrual are recorded as taxpayers earn income (personal income and corporation taxes), as sales are made (consumption and use taxes), and as the taxable event occurs (miscellaneous taxes), net of estimated tax overpayments.

Proprietary fund types, the **investment trust fund**, **private purpose trust funds**, and **pension and other employee benefit trust funds** are accounted for using the economic resources measurement focus. **Agency funds** are custodial in nature and do not measure the results of operations.

The accounts of the proprietary fund types, the investment trust fund, private purpose trust funds, pension and other employee benefit trust funds, and agency funds are reported using the accrual basis of accounting. Under the accrual basis, most transactions are recorded when they occur, regardless of when cash is received or disbursed.

Lottery revenue and the related prize expenses are recognized when sales are made. Certain prizes are payable in deferred installments. Such liabilities are recorded at the present value of amounts payable in the future.

For purposes of the Statement of Cash Flows, all cash and pooled investments in the State Treasurer's pooled investment program are considered to be cash and cash equivalents.

Discretely presented component units are accounted for using the economic resources measurement focus and the accrual basis of accounting.

D. Inventories

Inventories of supplies are reported at cost and inventories held for resale are stated at the lower of average cost or market. In the government-wide financial statements, inventories for both governmental and business-type activities are expensed when they are consumed and unused inventories are reported as an asset on the Statement of Net Assets. In the fund financial statements, governmental funds report inventories as expenditures when purchased, and proprietary funds report inventories as expenditures when consumed. The discretely presented component units have inventory policies similar to those of the primary government.

E. Deposits and Investments

The State reports investments at fair value, as prescribed by GAAP. Additional information on the State's investments can be found in Note 3, Deposits and Investments.

F. Net Investment in Direct Financing Leases

The State Public Works Board, an agency that accounts for its activities as an enterprise fund, has entered into lease-purchase agreements with various other primary government agencies, the University of California, and certain local agencies. The payments from these leases are used to satisfy the principal and interest requirements of revenue bonds issued by the State Public Works Board to finance the cost of projects such as acquisition and construction of facilities and equipment. Upon expiration of these leases, title to the facilities and projects transfers to the primary government agency, the University of California, or the local agency. The State Public Works Board records the net investment in direct financing leases at the net present value of the minimum lease payments.

California State University Systems (CSU) accounts for its lease activities in the State University Dormitory Building Maintenance and Equipment Fund, a major enterprise fund, has entered into 30-year capital lease agreements with certain auxiliary organizations. These agreements lease existing and newly constructed facilities to the auxiliary organizations. A portion of the proceeds from certain revenue bonds issued by CSU were used to finance the construction of these facilities.

G. Deferred Charges

The deferred charges account in the enterprise funds primarily represents operating and maintenance costs and unrecovered capital costs that will be recognized in the Water Resources Fund as expenses over the remaining life of long-term state water supply contracts. These costs are billable in future years. In addition, the account includes unbilled interest earnings on unrecovered capital costs that are recorded as deferred charges. These charges are recognized when billed in future years under the terms of water supply contracts. The deferred charges for the Public Buildings Construction Fund include bond counsel fees, trustee fees, rating agency fees, underwriting costs, insurance costs, and miscellaneous expenses. Bond issuance costs are amortized using the straight-line method over the term of the bonds. Amortization of bond issue costs during the facility construction period is capitalized and included in the construction costs. Deferred charges are also included in the State Lottery Fund and nonmajor enterprise funds. Bond issuance costs recorded as expenditures in governmental funds are reclassified as deferred charges in the governmental activities column of the Statement of Net Assets and are amortized over the life of the bonds.

H. Capital Assets

Capital assets are categorized into land, state highway infrastructure, collections, buildings and other depreciable property, intangible assets, and construction in progress. The buildings and other depreciable property account includes buildings, improvements other than buildings, equipment, personal property, certain infrastructure assets, certain books, and other capitalized and depreciable property. Intangible assets include computer software, land-use rights, patents, copyrights, and trademarks. The value of the capital assets, including the related accumulated depreciation and amortization, is reported in the applicable governmental, business-type, or component unit activities columns in the government-wide Statement of Net Assets.

The primary government has a large collection of historical and contemporary treasures that have important documentary and artistic value. These assets are not capitalized or depreciated because they are cultural resources and cannot reasonably be valued and/or the assets have inexhaustible useful lives. These treasures and works of art include furnishings, portraits and other paintings, books, statues, photographs, and miscellaneous artifacts. These collections meet the conditions for exemption from capitalization because the collections are: held for public exhibition, education, or research in furtherance of public service, rather than financial gain; protected, kept unencumbered, cared for, and preserved; and are subject to an organizational policy that requires the proceeds from sales of collection items to be used to acquire other items for collections.

In general, capital assets of the primary government are defined as assets that have a normal useful life of at least one year and a unit cost of at least $5,000. These assets are recorded at historical cost or estimated historical cost, including all costs related to the acquisition. Donated capital assets are recorded at the fair market value on the date the gift was received. Major capital asset outlays are capitalized as projects are constructed.

Buildings and other depreciable or amortizable capital assets are depreciated using the straight-line method with no salvage value for governmental activities. Generally, buildings and other improvements are depreciated over 40 years, equipment is depreciated over five years, and intangible assets are amortized over 10 to 20 years. Depreciable or amortizable assets of business-type activities are depreciated or amortized using the straight-line method over their estimated useful or service lives, ranging from three to 100 years.

California has elected to use the modified approach for capitalizing the infrastructure assets of the state highway system. The state highway system is maintained by the California Department of Transportation. By using the modified approach, the infrastructure assets of the state highway system are not depreciated and all expenditures made for those assets, except for additions and improvements, are expensed in the period incurred. All additions and improvements made after June 30, 2001, are capitalized. All infrastructure assets that are related to projects completed prior to July 1, 2001, are recorded at the historical costs contained in annual reports of the American Association of State Highway and Transportation Officials and the Federal Highway Administration.

The capital assets of the discretely presented component units are reported at cost at the date of acquisition or at fair market value at the date of donation, in the case of gifts. They are depreciated or amortized over their estimated useful service lives.

I. Long-term Obligations

Long-term obligations consist of certain unmatured general obligation bonds, certain unmatured revenue bonds, capital lease obligations, certificates of participation, commercial paper, the net pension obligation of the pension and other employee benefit trust funds, the net other postemployment benefits obligation, the liability for employees' compensated absences and workers' compensation claims, pollution remediation obligations, amounts owed for lawsuits, reimbursement for costs mandated by the State, the outstanding Proposition 98 funding guarantee owed to schools, the liability for Lottery prizes and annuities, loans from other governments and fiduciary funds, and the primary government's share of the University of California pension liability that is due in more than one year. In the government-wide financial statements, current and noncurrent obligations are reported as liabilities in the applicable governmental activities, business-type activities, and component units columns of the Statement of Net Assets.

Pollution remediation obligations are recorded by the State when one or more of the GASB Statement No. 49 obligating events have occurred and when a reasonable estimate of the remediation cost is available. These liabilities are measured using actual contract costs, where no change in cost is expected, or the expected cash flow technique. The remediation obligation estimates that appear in this report are subject to change over time. Cost may vary due to price fluctuations, changes in technology, changes in potential responsible parties, results of environmental studies, changes to statutes or regulations and other factors that could result in revisions to these estimates. Prospective recoveries from responsible parties may reduce the State's obligation.

Bond premiums, discounts, and loss on refundings for business-type activities and component units are generally deferred and amortized over the life of the bonds. In these instances, bonds payable are reported net of the applicable premium, discount, or loss. Bond premiums and discounts for governmental activities are reported as other financing sources (uses) in the fund financial statements. However, in the government-wide financial statements, the bonds payable for governmental activities is reported net of the applicable unamortized premium, discount, and loss on refundings.

With approval in advance from the Legislature, certain authorities and state agencies may issue revenue bonds. Principal and interest on revenue bonds are payable from the pledged revenues of the respective funds, building authorities, and agencies. The General Fund has no legal liability for payment of principal and interest on revenue bonds. With the exception of certain special revenue funds (Transportation and the Golden State Tobacco Securitization Corporation) and the building authorities' capital projects funds, the liability for revenue bonds is recorded in the respective fund.

J. Compensated Absences

The government-wide financial statements report both the current and the noncurrent liabilities for compensated absences, which are vested unpaid vacation, annual leave, and other paid leave programs. However, unused sick-leave balances are not included in the compensated absences because they do not vest to employees. In the fund financial statements for governmental funds, only the compensated absences for employees that have left state service and have unused reimbursable leave at year-end would be included. The amounts of vested unpaid vacation and annual leave accumulated by state employees are accrued in proprietary funds when incurred. In the discretely presented component units, the compensated absences are accounted for in the same manner as in the proprietary funds of the primary government.

K. Net Assets and Fund Balance

The difference between fund assets and liabilities is called "net assets" on the government-wide financial statements, the proprietary and fiduciary fund statements, and the component unit statements; it is called "fund balance" on the governmental fund statements. The government-wide financial statements include the following categories of net assets:

Investment in capital assets, net of related debt, represents capital assets, net of accumulated depreciation, reduced by the outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets.

Restricted net assets result from transactions with purpose restrictions and are designated as either *nonexpendable* or *expendable*. *Nonexpendable restricted net assets* are subject to externally imposed restrictions that must be retained in perpetuity. *Expendable restricted net assets* are subject to externally imposed restrictions that can be fulfilled by actions of the State. As of June 30, 2012, the government-wide financial statements show restricted net assets for the primary government of $29.4 billion, of which $6.9 billion is due to enabling legislation.

Unrestricted net assets are neither restricted nor invested in capital assets, net of related debt.

In the fund financial statements, proprietary funds include categories of net assets similar to those in the government-wide statements. The fund balance amounts for governmental funds are reported as nonspendable, restricted, committed, assigned, or unassigned in accordance with GASB Statement No. 54.

Nonspendable fund balance includes amounts that cannot be spent because they are not in spendable form (inventories; prepaid amounts; long-term portion of loans or notes receivable; or property held for resale unless the proceeds are restricted, committed, or assigned) or they are legally or contractually required to remain intact, such as a principal balance in a permanent fund.

Restricted fund balances have constraints placed upon the use of the resources either by an external party (creditors, grantors, contributors, or laws or regulations of other governments) or by law through a constitutional provision or enabling legislation.

Committed fund balances can be used only for specific purposes pursuant to constraints imposed by a formal action of the State's highest level of decision-making authority. Those committed amounts cannot be used for any other purpose unless the State removes or changes the specified use by taking the same type of action. The formal action that commits a fund balance to a specific purpose should occur prior to the end of the reporting period, but the amount subject to the constraint may be determined in a subsequent period. Committed fund balance should incorporate contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned fund balances include amounts that are constrained by the State's intent to be used for a specific purpose, but are neither restricted nor committed. For governmental funds other than the General Fund, this is the residual amount of the fund that is not classified as nonspendable and is neither restricted nor committed.

Unassigned fund balance is the residual amount of the General Fund not included in the four classifications described above. In other governmental funds where expenditures incurred for specific purposes exceed amounts restricted, committed, or assigned to those purposes, a negative unassigned fund balance may need to be reported.

Fiduciary fund net assets are amounts held in trust for benefits and other purposes.

L. Restatement of Beginning Fund Balances and Net Assets

1. Fund Financial Statements

The beginning fund balance of the governmental funds increased by $266 million as a result of a prior fiscal year understatement of Personal Income Tax revenues of $266 million in the General Fund, **a major governmental fund.** In addition, the Environmental and Natural Resources Fund was reclassified from a nonmajor governmental fund to a major government fund. The following changes also occurred as a result of interfund loans incorrectly recorded in the prior fiscal year that did not result in a change to the total governmental beginning fund balance: a $231 million decrease in the general fund, **a major governmental fund**, a $90 million increase in the Transportation Fund, **a major governmental fund**, a $13 million increase in the Environmental and Natural Resources Fund, **a major governmental fund**, and a $128 million increase in the **nonmajor governmental fund**.

The beginning net assets of the **enterprise funds** increased by $926 million primarily as a result of a one-time adjustment of revenue reporting due to a change in the Employment Development Department's (EDD) accounting system. The new system enables it to correctly report unbilled revenue on an accrual basis rather than on a cash basis, as it did in prior periods. An adjustment of $893 million to the EDD's Unemployment Programs Fund, **a major enterprise fund**, was made. In addition, beginning net assets for **nonmajor enterprise funds** increased by $34 million as a result of the reclassification of the Housing Insurance Fund to a **discretely presented component unit**.

The beginning net assets of the **discretely presented component units-enterprise activity** decreased by $114 million. The net decrease is comprised of a $4 million net increase in the California State University auxiliary organizations primarily due to the correction of errors, a $24 million net decrease in the District Agricultural Associations as a result of error corrections and reclassification of capital assets, and a $94 million decrease reflecting the inclusion of the restated beginning fund balance of the Housing Insurance Fund described above. This fund's beginning net assets were also restated to reflect a premium reserve deficiency previously not recorded.

2. Government-wide Financial Statements

The beginning net assets of the **governmental activities** increased by $207 million. In addition to the $266 million increase described in the previous section for Governmental Funds, the restatement is due to a $62 million decrease to capital assets related to various capital asset adjustments and a $3 million increase due to a restatement of the Other Post-Employment Benefits Obligation for four counties as reported by the State's Trial Courts.

M. Guaranty Deposits

The State is custodian of guaranty deposits held to protect consumers, to secure the State's deposits in financial institutions, and to ensure payment of taxes and fulfillment of obligations to the State. Guaranty deposits of securities and other properties are not shown on the financial statements.

NOTE 2: BUDGETARY AND LEGAL COMPLIANCE

A. Budgeting and Budgetary Control

The State's annual budget is prepared primarily on a modified accrual basis for governmental funds. The Governor recommends a budget for approval by the Legislature each year. This recommended budget includes estimated revenues; however, revenues are not included in the annual budget bill adopted by the Legislature. Under state law, the State cannot adopt a spending plan that exceeds estimated revenues.

Under the State Constitution, money may be drawn from the treasury only through a legal appropriation. The appropriations contained in the Budget Act, as approved by the Legislature and signed by the Governor, are the primary sources of annual expenditure authorizations and establish the legal level of control for the annual operating budget. The budget can be amended throughout the year by special legislative action, budget revisions by the Department of Finance, or executive orders of the Governor. Amendments to the original budget for the year ended June 30, 2012, were legally made, and they had the effect of decreased spending authority for the Budgetary/Legal Basis reported General Fund and the Transportation Funds.

Appropriations are generally available for expenditure or encumbrance either in the year appropriated or for a period of three years if the legislation does not specify a period of availability. At the end of the availability period, the encumbering authority for the unencumbered balance lapses. Some appropriations continue indefinitely, while others are available until fully spent. Generally, encumbrances must be liquidated within two years from the end of the period in which the appropriation is available. If the encumbrances are not liquidated within this additional two-year period, the spending authority for these encumbrances lapses.

B. Legal Compliance

State agencies are responsible for exercising basic budgetary control and ensuring that appropriations are not overspent. The State Controller's Office is responsible for overall appropriation control and does not allow expenditures in excess of authorized appropriations.

Financial activities are mainly controlled at the appropriation level but can vary, depending on the presentation and wording contained in the Budget Act. The Budget Act appropriations are identified by department, reference item, and fund. The annual appropriated budget may establish detailed allocations to specific programs, projects, or sources of reimbursement within an appropriation. The Department of Finance can authorize adjustments between the detail allocations but cannot increase the amount of the overall appropriation. While the financial activities are controlled at various levels, the legal level of budgetary control—the extent to which management may amend the budget without seeking approval of the governing body—has been established in the Budget Act for the annual operating budget.

NOTE 3: DEPOSITS AND INVESTMENTS

The State Treasurer administers a single pooled-investment program comprising both an internal investment pool and an external investment pool (the Local Agency Investment Fund). A single portfolio of investments exists, with all participants having an undivided interest in the portfolio. Both pools are administered in the same manner, as described below.

As required by generally accepted accounting principles, certain risk disclosures are included in this note to the extent that the risks exist at the date of the statement of net assets. Disclosure of the following risks is included:

Interest Rate Risk is the risk that the value of fixed-income securities will decline because of changing interest rates. The prices of fixed-income securities with longer time to maturity tend to be more sensitive to changes in interest rates than those with shorter durations.

Credit Risk is the risk that a debt issuer will fail to pay interest or principal in a timely manner, or that negative perceptions of the issuer's ability to make these payments will cause security prices to decline.

Custodial Credit Risk is the risk that, in the event a financial institution or counterparty fails, the investor will not be able to recover the value of deposits, investments, or collateral.

Concentration of Credit Risk is the risk of loss attributed to the magnitude of an investor's holdings in a single issuer.

Foreign Currency Risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit.

A. Primary Government

The State's pooled investment program and certain funds of the primary government are allowed by state statutes, bond resolutions, and investment policy resolutions to invest in United States government securities, federal agency securities, negotiable certificates of deposit, bankers' acceptances, commercial paper, corporate bonds, bank notes, other debt securities, repurchase agreements, reverse repurchase agreements, and other investments.

Certain discretely presented component units participate in the State Treasurer's Office pooled investment program. As of June 30, 2012, the discretely presented component units accounted for approximately 3.1% of the State Treasurer's pooled investment portfolio. This program enables the State Treasurer's Office to combine available cash from all funds and to invest cash that exceeds current needs.

Both deposits and investments are included in the State's investment program. For certain banks, the State Treasurer's Office maintains cash deposits that cover uncleared checks deposited in the State's accounts and that earn income which compensates the banks for their services.

Demand and time deposits held by financial institutions as of June 30, 2012, totaling approximately $6.8 billion, were insured by federal depository insurance or by collateral held by the State Treasurer's Office or an agent of the State Treasurer's Office in the State's name. The California Government Code requires that collateral pledged for demand and time deposits be deposited with the State Treasurer.

As of June 30, 2012, the State Treasurer's Office had on deposit with a fiscal agent amounts totaling $27 million related to principal and interest payments to bondholders. These deposits were insured by federal depository insurance or by collateral held by an agent of the State Treasurer's Office in the State's name.

The State Treasurer's Office reports its investments at fair value. The fair value of securities in the State Treasurer's pooled investment program generally is based on quoted market prices. The State Treasurer's Office performs a quarterly fair market valuation of the pooled investment program portfolio. In addition, the State Treasurer's Office performs a monthly fair market valuation of all securities held against carrying cost. These valuations are posted to the State Treasurer's Office website at www.treasurer.ca.gov. As of June 30, 2012, the weighted average maturity of the securities in the pooled investment program administered by the State Treasurer's Office was approximately 308 days. Weighted average maturity is the average number of days, given a dollar-weighted value of individual investments, that the securities in the portfolio have remaining from evaluation date to stated maturity.

The Pooled Money Investment Board provides oversight of the State Treasurer's pooled investment program. The purpose of the board is to design and administer an effective cash management and investment program, using all monies flowing through the State Treasurer's Office bank accounts and keeping all available funds invested in a manner consistent with the goals of safety, liquidity, and yield. The Pooled Money Investment Board is comprised of the State Treasurer as chair, the State Controller, and the Director of Finance. This board designates the amounts of money available for investment. The State Treasurer is charged with making the actual investment transactions for this program. This investment program is not registered with the Securities and Exchange Commission as an investment company.

The value of the deposits in the State Treasurer's pooled investment program, including the Local Agency Investment Fund, is equal to the dollars deposited in the program. The fair value of the position in the program may be greater or less than the value of the deposits, with the difference representing the unrealized gain or loss. As of June 30, 2012, this difference was immaterial to the valuation of the program. The pool is run with "dollar-in, dollar-out" participation. There are no share-value adjustments to reflect changes in fair value.

Certain funds have elected to participate in the pooled investment program even though they have the authority to make their own investments. Others may be required by legislation to participate in the program; as a result, the deposits of these funds or accounts may be considered involuntary. However, these funds or accounts are part of the State's reporting entity. The remaining participation in the pool, the Local Agency Investment Fund, is voluntary.

Certain funds that have deposits in the State Treasurer's pooled investment program do not receive the interest earnings on their deposits. Instead, by law, the earnings are to be assigned to the State's General Fund. Most of the $26 million in interest revenue received by the General Fund from the pooled investment program in the 2011-12 fiscal year was earned on balances in these funds.

The State Treasurer's pooled investment program values participants' shares on an amortized cost basis. Specifically, the program distributes income to participants quarterly, based on their relative participation during the quarter. This participation is calculated based on (1) realized investment gains and losses calculated on an amortized cost basis, (2) interest income based on stated rates (both paid and accrued), (3) amortization of discounts and premiums on a straight-line basis, and (4) investment and administrative expenses. This amortized cost method differs from the fair value method used to value investments in these financial statements; the amortized cost method is not designed to distribute to participants all unrealized gains and losses in the fair value of the pool's investments. Because the total difference between the fair value of the investments in the pool and the value distributed to pool participants using the amortized cost method described above is not material, no adjustment was made to the financial statements. The State Treasurer's Office also reports participant fair value as a ratio of amortized cost on a quarterly basis. The State Treasurer's Office has not provided or obtained a legally binding guarantee to support the principal invested in the investment program.

As of June 30, 2012, structured notes and medium-term asset-backed securities comprised approximately 2.75% of the pooled investments. A significant portion of the structured notes consisted of corporate floating-rate certificates of deposit. For the corporate floating-rate securities held in the portfolio during the fiscal year, the interest received by the State Treasurer's pooled investment program rose or fell as the underlying index rate rose or fell. The portion representing the asset-backed securities consists of mortgage backed securities, Small Business Administration (SBA) pools, and asset-backed commercial paper. The mortgage-backed securities are called real estate mortgage investment conduits (REMICs), and are securities backed by pools of mortgages. The REMICs in the State's portfolio have a fixed principal payment schedule. A portion of the asset-backed securities consisted of floating-rate SBA notes. For floating-rate SBA notes held in the portfolio during the fiscal year, the interest received by the State Treasurer's pooled investment program rose or fell as the underlying index rate rose or fell. The structure of the floating-rate notes in the State Treasurer's pooled investment program portfolio provided a hedge against the risk of increasing interest rates. A portion of the asset-backed portfolio holdings was short-term, asset-backed commercial paper (ABCP), which represented 0.72% of pooled investments.

Enterprise funds and special revenue funds also make separate investments, which are presented at fair value.

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Table 1 identifies the investment types that are authorized by the California Government Code and the State Treasurer's Office investment policy for the pooled investment program.

Table 1

Authorized Investments

Authorized Investment Type	Maximum Maturity[1]	Maximum Percentage of Portfolio[1]	Maximum Investment in One Issuer[1]	Credit Rating
U.S. Treasury Securities	5 years	N/A	N/A	N/A
Federal Agency and Supranational Securities	5 years	N/A	N/A	N/A
Certificates of Deposit	5 years	N/A	N/A	N/A
Bankers Acceptances	180 days	N/A	N/A	N/A
Commercial Paper	180 days	30%	10% of issuer's outstanding Commercial Paper	A-2/P-2/F-2[2]
Corporate Bonds/Notes	5 years	N/A	N/A	A-/A3/A-[3]
Repurchase Agreements	1 year	N/A	N/A	N/A
Reverse Repurchase Agreements	1 year	10%	N/A	N/A

[1] Limitations are pursuant to the State Treasurer's Office Investment Policy for the Pooled Money Investment Account.

[2] The State Treasurer's Office Investment Policy for the Pooled Money Investment Account is more restrictive than the Government Code, which allows investments rated A-3/P-3/F-3.

[3] The Government Code requires that a security fall within the top three ratings of a nationally recognized rating service.

N/A Neither the Government Code nor the State Treasure's Office Investment Policy for the Pooled Money Investment Account sets limits for this investment type.

1. Interest Rate Risk

Table 2 presents the interest rate risk of the primary government's investments.

Table 2

Schedule of Investments – Primary Government – Interest Rate Risk
June 30, 2012
(amounts in thousands)

	Interest Rates[1]	Maturity	Fair Value at Year End	Weighted Average Maturity (in years)
Pooled investments				
U.S. Treasury bills and notes	0.05-1.49	26 days - 2.96 years	$ 34,507,500	1.04
U.S. agency bonds and discount notes	0.13-0.45	93 days - 1.49 years	3,048,705	0.69
Supranational debentures and discount notes (IBRD)	0.51	1.46 years	400,000	1.46
Small Business Administration loans	0.50-1.38	0.25 year	534,237	0.25 [2]
Mortgage-backed securities [3]	4.07-14.25	46 days - 3.08 years	356,066	2.64
Certificates of deposit	0.14-0.77	2 days - 1.37 years	7,164,103	0.17
Commercial paper	0.11-0.40	2 days - 62 days	2,585,211	0.08
Total pooled investments			**48,595,822** [4]	
Other primary government investments				
U.S. Treasuries and agencies			1,935,066	2.94
Commercial paper			134,396	0.02
Guaranteed investment contracts			215,223	9.92
Corporate debt securities			592,891	2.02
Repurchase agreements			12,407 [5]	0.01
Other			985,208	4.86
Total other primary government investments [6]			**3,875,191**	
Funds outside primary government included in pooled investments				
Less: investment trust funds			21,907,654	
Less: other trust and agency funds			2,440,575	
Less: discretely presented component units			1,897,868	
Total primary government investments			**$ 26,224,916**	

[1] These numbers represent high and low interest rates for each investment type.
[2] In calculating SBA holdings' weighted average maturity, the State Treasurer's Office assumes that stated maturity is the quarterly reset date.
[3] These securities are issued by U.S. government agencies such as the Federal National Mortgage Association.
[4] Total pooled investments does not include certain assets of the State's pooled investment program. The other assets include $4.5 billion of time deposits and $7.5 billion of internal loans to state funds, primarily the General Fund.
[5] These repurchase agreements of the California State University mature in two days.
[6] Total other primary government investments include approximately $9 million of cash equivalents that are included in cash and pooled investments.

Table 3 identifies the debt securities that are highly sensitive to interest rate fluctuations (to a greater degree than already indicated in the information provided previously).

Table 3

Schedule of Highly Sensitive Investments in Debt Securities – Primary Government – Interest Rate Risk
June 30, 2012
(amounts in thousands)

	Fair Value at Year End	Percent of Total Pooled Investments
Pooled investments		
Mortgage-backed		
Federal National Mortgage Association Collateralized Mortgage Obligations	$ 356,053	0.733 %
Government National Mortgage Association Pools	13	0.000

These mortgage-backed securities entitle the purchaser to receive a share of the cash flows, such as principal and interest payments, from a pool of mortgages. Mortgage securities are sensitive to interest rate changes because principal prepayments either increase (in a low interest rate environment) or decrease (in a high interest rate environment). A change, up or down, in the payment rate will result in a change in the security yield.

2. Credit Risk

Table 4 presents the credit risk of the primary government's debt securities.

Table 4

Schedule of Investments in Debt Securities – Primary Government – Credit Risk
June 30, 2012
(amounts in thousands)

Credit Rating as of Year End: Short-term	Credit Rating as of Year End: Long-term	Fair Value
Pooled investments[1]		
A-1+/P-1/F-1+	AAA/Aaa/AAA	$ 8,412,507
A-1/P-1/F-1	AA/Aa/AA	4,475,522
A-2/P-2/F-2	A/A/A	309,990
Not rated		356,053
Not applicable		35,041,750
Total pooled investments		**$ 48,595,822** [2]
Other primary government investments		
A-1+/P-1/F-1+	AAA/Aaa/AAA	$ 989,649
A-1/P-1/F-1	AA/Aa/AA	1,607,962
A-2/P-2/F-2	A/A/A	676,620
A-3/P-3/F-3	BBB/Baa/BBB	5,876
B/NP/B	BB/Ba/BB	571
Not rated		559,842
Not applicable		34,671
Total other primary government investments		**$ 3,875,191**

[1] The State Treasurer's Office uses Standard & Poor's, Moody's, and Fitch ratings services. Securities are classified by the lowest rating of the three agencies.
[2] Total pooled investments does not include certain assets of the State's pooled investment program. The other assets include time deposits of $4.5 billion, for which credit risk is mitigated by collateral that the State holds for them—as discussed earlier in this note—and $7.5 billion in loans to state funds, primarily to the General Fund, for which external credit risk is not applicable because they are internal loans.

3. Concentration of Credit Risk

The investment policy of the State Treasurer's Office contains no limitations on the amount that can be invested in any one issuer beyond those limitations stipulated in the California Government Code. Table 5 identifies debt securities in any one issuer (other than U.S. Treasury securities) that represent 5% or more of the State Treasurer's investments, or of the separate investments of other primary government funds.

Table 5

Schedule of Investments – Primary Government – Concentration of Credit Risk
June 30, 2012
(amounts in thousands)

Issuer	Investment Type	Reported Amount	Percent of Total Pooled/Agency Investments
POOLED INVESTMENTS			
Federal Home Loan Mortgage Corporation	U.S. agency securities	$2,498,755	5.14 %
OTHER PRIMARY GOVERNMENT INVESTMENTS			
California State University			
Federal Home Loan Bank	U.S. agency securities	$ 231,255	12.31 %
Federal National Mortgage Association	U.S. agency securities	211,831	11.27
California State Lottery			
State of California	Municipal securities	$ 209,449	18.31 %
Commonwealth of Massachusetts	Municipal securities	71,459	6.25
Golden State Tobacco Securitization Corporation			
Rabobank USA Financial Corporation	Commercial paper	$ 60,526	24.63 %
Standard Chartered Bank	Commercial paper	62,028	25.25
Department of Water Resources			
Federal National Mortgage Association	U.S. agency securities	$ 75,615	89.14 %

4. Custodial Credit Risk

The State of California has a deposit policy for custodial credit risk that requires deposits held by financial institutions to be insured by federal depository insurance or secured by collateral. As of June 30, 2012, none of the Fund's cash balances were both uninsured and uncollateralized.

B. Fiduciary Funds

The fiduciary funds include pension and other employee benefit trust funds of the following fiduciary funds and component units: the California Public Employees' Retirement System (CalPERS), the California State Teachers' Retirement System (CalSTRS), the fund for the California Scholarshare program, and various other funds. CalPERS and CalSTRS account for 97% of these separately invested funds. CalPERS and CalSTRS exercise their authority under the State Constitution and invest in stocks, bonds, mortgages, real estate, and other investments, including derivative instruments.

CalPERS reports investments in securities at fair value, generally based on published market prices and quotations from pricing vendors. Many factors are considered in arriving at fair value. Real estate investments are held either directly, in separate accounts, or as a limited partnership or in a joint venture or commingled fund. Properties owned directly or in a joint venture are subject to independent third-party appraisals. Short-term investments are reported at market value, when available, or, when market value is not available, at cost plus accrued interest, which approximates market value. For investments where no readily ascertainable market value exists, management, in consultation with its investment advisors, determines the fair values for the individual investments.

CalSTRS also reports investments at fair value, generally based on published market prices and quotations from pricing vendors for securities. Real estate equity investment fair values are based on either recent estimates provided by CalSTRS' contract real estate advisors or by independent appraisers. Short-term investments are reported at fair value or at cost or amortized cost, which approximates fair value. For short-term investments which are reported at fair value, the investments are valued using similar methodologies as used for debt securities. Fair value for commingled funds (other than those funds traded on a national or international exchange) is based on information provided by the applicable fund managers. Private Equity partnerships are valued using their respective Net Asset Value (NAV), and are audited annually. CalSTRS receives these audited financial statements including valuation results from the general partners. CalSTRS reviews valuation policies for a sample of general partners on a periodic basis. The most significant input into the NAV of such an entity is the fair value of its investment holdings. These holdings are valued by the general partners on a quarterly or semi-annual basis. For private equity investments and other investments for which no readily ascertainable market value exists, CalSTRS management, in consultation with its investment advisors, has determined the fair value for the individual investments. Purchases and sales are recorded on the trade date.

The State Constitution, state statutes, and board policies permit CalPERS and CalSTRS to lend their securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. Third-party securities lending agents are under contract to lend domestic and international equity and debt securities. For both CalPERS and CalSTRS, collateral, in the form of cash or other securities, is required at 102% and 105% of the fair value of domestic and international securities loaned, respectively. CalPERS' management believes that CalPERS has minimized its credit risk exposure by requiring the borrowers to provide collateral greater than 100% of the market value of the securities loaned. The securities loaned are priced daily. Securities on loan can be recalled on demand by CalPERS and loans of securities may be terminated by CalPERS or the borrower.

At June 30, 2012, the cash collateral had weighted average maturities of 1,381; 2,115; 1,911 and 9 days, and durations of 29, 0, 25, and 7 days for four internally managed portfolios, and weighted average maturities of 26 and 522 days for two externally managed portfolios.

For CalSTRS, collateral received on each security loan was placed in investments that, at June 30, 2012, had a 30-day weighted duration difference between the investments and loans. Most of CalSTRS' security loans can be terminated on demand by CalSTRS or the borrower. CalSTRS is not permitted to pledge or sell non-cash collateral securities received unless the borrower defaults. The contracts with the security lending agents require them to indemnify CalSTRS if the borrowers fail to return the securities (or if the collateral is not

sufficient to replace the securities lent) or if the borrowers fail to pay CalSTRS for income distributions by the securities' issuers while the securities are on loan.

Table 6 presents the investments, including derivative instruments, of the fiduciary funds by investment type.

Table 6

Schedule of Investments - Fiduciary Funds
June 30, 2012
(amounts in thousands)

Investment Type	Fair Value
Equity securities	$ 195,174,765
Debt securities*	90,238,972
Mutual funds	237,816
Real estate	47,773,752
Inflation assets	7,790,576
Insurance contracts	802,054
Private equity	56,689,513
Securities lending collateral	33,099,162
Other	2,438,761
Total investments	**$ 434,245,371**

* Debt securities include short-term investments not included in cash and pooled investments.

1. Interest Rate Risk

CalPERS and CalSTRS manage the interest rate risk inherent in their investment portfolios by measuring the effective or option-adjusted duration of the portfolio. In using the duration method, these agencies may make assumptions regarding the timing of cash flows or other factors that affect interest rate risk information. The CalPERS investment policies require the option-adjusted duration of the total fixed-income portfolio to stay within 10% of the option-adjusted duration of its benchmark. All individual portfolios are required to maintain a specific level of risk relative to their benchmark. The CalSTRS investment guidelines allow the core long-term investment grade portfolios the discretion to deviate within plus or minus 20% (0.80 to 1.20) of the weighted average effective duration of the relevant performance benchmark. The permissible range of deviation for the weighted average effective duration within the opportunistic strategy portfolios is negotiated with each manager and detailed within their respective investment guidelines. The CalSTRS investment guidelines state that the average maturity of the short-term fixed-income portfolio shall be managed such that it will not exceed 180 days.

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Table 7 presents the interest rate risk of the fixed-income securities of these fiduciary funds.

Table 7

Schedule of Investments in Fixed-Income Securities - Fiduciary Funds - Interest Rate Risk
June 30, 2012
(amounts in thousands)

	Fair Value at Year End	Effective Duration (in years)[1]
California Public Employees' Retirement Fund [2]		
U.S. Treasuries and agencies	$ 23,068,378	8.56
Mortgages	12,651,448	3.13
Corporate	10,895,969	9.59
Asset-backed	2,549,153	2.50
Commingled	81,925	19.49
Municipal	40,489	11.28
International	5,092,018	9.19
Swaps	26,101	16.54
Private Placement	7,466	3.44
No effective duration	6,183,954	N/A
Total	**$ 60,596,901**	

[1] Effective duration is described in the paragraph preceding this table.
[2] Includes investments of fiduciary funds and certain discretely presented component units that CalPERS administers.

Table 7 (Continued)

Schedule of Investments in Fixed-Income Securities - Fiduciary Funds - Interest Rate Risk
June 30, 2012
(amounts in thousands)

	Fair Value at Year End	Effective Duration (in years)[1]
California State Teachers' Retirement System		
Long-term fixed-income investments		
U.S. Government and agency obligations	$ 7,557,073	5.29
Corporate credit obligations	6,310,451	6.55
High yield	1,725,262	3.75
Leveraged loans	272,254	0.40
Debt core plus	2,863,996	4.44
Special situations	214,962	1.24
Debt transitions	6,607	4.49
Commercial mortgage-backed securities	548,696	3.19
Mortgage-backed securities	7,962,483	2.00
Total	**$ 27,461,784**	

	0-30 days	31-90 days	91-120 days	121-180 days	181-365 days	366+ days	Fair Value at Year End
Short-term fixed-income investments							
Money market securities	$ 1,161,114	$ 602,179	$ —	$ 42,977	$ 75,000	$ —	$ 1,881,270
Corporate credit obligations	158,970	250,906	—	—	—	9,497	419,373
U.S. Government and agency obligations	200,540	285,038	218,923	415,834	539,587	294,621	1,954,543
Asset-backed securities	71,151	34,200	18,686	4,200	—	—	128,237
Total	**$ 1,591,775**	**$ 1,172,323**	**$ 237,609**	**$ 463,011**	**$ 614,587**	**$ 304,118**	**$ 4,383,423**

	0-1 day	2-6 days	7-29 days	30-59 days	60-89 days	90+ days	Fair Value at Year End
Securities lending collateral							
Money markets securities	$ —	$ 571,004	$ 2,640,562	$ 3,304,195	$ 1,244,803	$ 30,000	$ 7,790,564
Repurchase agreements	1,415,777	1,675,486	70,000	250,000	—	—	3,411,263
Corporate credit obligations	—	355,256	1,412,265	1,359,201	1,197,614	142,814	4,467,150
U.S. Government and Agency Obligations	—	640,476	71,218	44,991	24,992	554,397	1,336,074
Asset backed securities	—	—	4,978,531	327,642	309,096	139,144	5,754,413
Total	**$ 1,415,777**	**$ 3,242,222**	**$ 9,172,576**	**$ 5,286,029**	**$ 2,776,505**	**$ 866,355**	**$ 22,759,464**

[1] Effective duration is described in the paragraph preceding this table.

2. Credit Risk

The CalPERS investment policies require that 88% of the total fixed-income portfolio be invested in investment-grade securities. Investment-grade securities are those fixed-income securities with a Moody's rating of Aaa to Baa or a Standard and Poor's rating of AAA to BBB. Each portfolio is required to maintain a specified risk level. The CalSTRS investment guidelines require that, at the time of purchase, at least 95% of the corporate securities comprising the credit portion of the core fixed-income portfolio be rated Baa3/BBB-/BBB- or better by two out of the three nationally recognized statistical rating organizations (NRSROs), such as Moody's Investors Service, Inc., Standard and Poor's Rating Service, or Fitch Ratings. Furthermore, the total position of the outstanding debt of any one private mortgage-backed and asset-backed securities issuer shall be limited to 10% of the market value of the portfolio. Obligations of other issuers are held to a 5% per issuer limit (at the time of purchase) of the market value of any individual portfolio. The investment guidelines also include an allocation to opportunistic strategies, a portion of which is managed externally and allows for the purchase of bonds rated below investment grade. Limitations on the amount of debt of any one issuer an investment manager may hold are negotiated on a manager-by-manager basis.

Table 8 presents the credit risk of the fixed-income securities of these fiduciary funds.

Table 8

Schedule of Investments in Fixed-Income Securities – Fiduciary Funds – Credit Risk
June 30, 2012
(amounts in thousands)

Credit Rating as of Year End		
Short-term	**Long-term**	**Fair Value**
A-1+/P-1/F-1+	AAA/Aaa/AAA	$ 28,553,124
A-1/P-1/F-1	AA/Aa/AA	16,918,341
A-2/P-2/F-2	A/A/A	12,111,907
A-3/P-3/F-3	BBB/Baa/BBB	10,857,593
B/NP/B	BB/Ba/BB	1,776,022
B/NP/B	B/B/B	1,604,635
C/NP/C	CCC/Caa/CCC	776,260
C/NP/C	CC/Ca/CC	58,362
C/NP/C	C/C/C	4,645
D/NP/D	D/D/D	4,900
Withdrawn		252,688
Not rated		17,117,877
Not applicable		32,451,113
Total fixed-income securities		**$ 122,487,467**

3. Concentration of Credit Risk

The Scholarshare Program Trust Fund held $721 million in insurance contracts of TIAA-CREF Life Insurance Company; this amount represented 16% of the fund's total investments as of June 30, 2012.

CalPERS and CalSTRS did not have investments in a single issuer that represented 5% or more of total fair value of all investments.

4. Custodial Credit Risk

CalPERS' investments at June 30, 2012 were not exposed to custodial risk. As of June 30, 2012, all of CalSTRS investments, other than those of two tax-deferred defined contribution plans amounting to $356 million held in the name of TIAA-CREF, are held in CalSTRS' name and/or are not exposed to custodial credit risk. CalPERS and CalSTRS have no general policies relating to custodial credit risk.

5. Foreign Currency Risk

At June 30, 2012, CalPERS and CalSTRS held $70.7 billion and $24.2 billion, respectively, in investments, including derivative instruments, subject to foreign currency risk. CalPERS' asset allocation and investment policies allow for active and passive investments in international securities. CalPERS' policy for total global equity specifies investment in international equities be based on market capitalization. For total fixed income, 10% is targeted for investment in international securities. Real assets and private equity do not have a target allocation for international investment. CalPERS uses a currency overlay program to reduce risk by hedging approximately 15% of it's total exposure to international currencies. CalSTRS believes that its Currency Management Program should emphasize the protection of the value of its non-dollar public and private equity assets against a strengthening U.S. dollar, yet recognizes that opportunities also exist for alpha generation (the ability to derive a return in excess of a market return) within the currency markets. The position range has been designed to allow for some degree of symmetry around the underlying exposure to the foreign denominated assets within CalSTRS in order to protect the translation value of the assets against a strengthening U.S. dollar and to enhance returns in a declining U.S. dollar environment. As a result, the position range is -25% to 50% of the total notional value of the non-U.S. public and non-U.S. private equity portfolios.

Table 9 (next page) identifies the investments, including derivative instruments, of the fiduciary funds that are subject to foreign currency risk. Derivative instruments are included in the amounts reported under equity, fixed income, and forward contracts.

Table 9

Schedule of Investments - Fiduciary Funds - Foreign Currency Risk

June 30, 2012

(amounts in thousands of U.S. dollars at fair value)

Currency	Cash	Equity	Alternative	Fixed Income	Real Estate	Spot Contracts	Forward Contracts	Total
Argentine Peso	$ —	$ —	$ —	$ —	$ —	$ —	$ 107	$ 107
Australian Dollar	34,196	4,477,491	62,913	221,214	368,095	(13)	(17,261)	5,146,635
Bermuda Dollar	—	1,905	—	—	—	—	—	1,905
Brazilian Real	3,313	1,975,478	—	72,623	884,481	(6)	61	2,935,950
British Pound Sterling	57,594	8,349,721	2,728	917,077	358,314	—	20,203	9,705,637
Canadian Dollar	57,743	5,601,042	268,599	332,691	701,090	(6)	8,268	6,969,427
Cayman Islands Dollar	—	6,475	—	—	—	—	—	6,475
Chilean Peso	76	226,066	—	1,049	—	—	(691)	226,500
Chinese Yuan	—	5,797	—	—	410,678	43	(542)	415,976
Columbian Peso	70	35,436	—	—	—	—	(152)	35,354
Czech Koruna	398	68,971	—	—	—	—	(465)	68,904
Danish Krone	4,204	743,089	—	5,405	—	(2)	(501)	752,195
Egyptian Pound	8,697	99,358	—	—	—	—	10	108,065
Euro	319,309	20,761,440	3,368,784	1,749,695	874,270	(829)	49,347	27,122,016
Guatemalan Quetzal	—	—	—	—	56,275	—	—	56,275
Guernsey Pound	—	3,209	—	—	—	—	—	3,209
Hong Kong Dollar	48,280	4,079,692	—	—	613,537	—	(395)	4,741,114
Hungarian Forint	118	92,045	—	—	—	—	538	92,701
Indian Rupee	2,477	1,072,246	—	71	420,853	—	316	1,495,963
Indonesian Rupiah	2,813	590,032	—	1,373	—	(3)	(178)	594,037
Israeli Shekel	2,441	266,504	—	1	1,663	—	497	271,106
Japanese Yen	152,743	12,203,975	136,145	1,352,083	476,400	1	(2,231)	14,319,116
Korean Won	—	5,100	—	—	—	—	—	5,100
Malaysian Ringgit	1,495	452,275	—	—	25,849	11	(22)	479,608
Mexican Peso	9,049	662,591	—	149,261	179,938	—	1,285	1,002,124
Moroccan Dirham	61	2,912	—	—	—	—	1	2,974
New Romanian Leu	—	—	—	—	—	—	77	77
New Russian Ruble	—	3,548	—	—	—	—	606	4,154
New Taiwan Dollar	8,062	1,603,668	—	—	—	—	(140)	1,611,590
New Turkish Lira	56	324,911	—	—	—	—	—	324,967
New Zealand Dollar	694	90,977	—	49,239	1,705	—	(2,687)	139,928
Norwegian Krone	4,427	626,617	—	23,700	4,203	(11)	231	659,167
Pakistan Rupee	569	48,663	—	—	—	—	—	49,232
Peruvian Nouveau Sol	17	5,268	—	—	—	(92)	46	5,239
Philippine Peso	316	143,263	—	—	—	—	(77)	143,502
Polish Zloty	949	194,705	—	50,955	—	—	(813)	245,796
Pound Sterling	46,263	3,052,843	—	98,894	—	(52)	512	3,198,460
Singapore Dollar	4,463	1,051,617	—	16,868	94,524	(1)	(550)	1,166,921
South African Rand	3,159	1,560,359	—	54,488	—	77	(1,479)	1,616,604
South Korean Won	2,661	2,766,860	—	—	—	—	(52)	2,769,469
Sri Lanka Rupee	3	—	—	—	—	—	—	3
Swedish Krona	8,749	1,613,787	—	56,180	180,451	(30)	(6,618)	1,852,519
Swiss Franc	25,818	4,011,571	—	2,122	23,423	(7)	4,451	4,067,378
Thailand Baht	2,406	458,594	—	—	—	—	219	461,219
Tunisian Dinar	—	—	—	—	—	—	30	30
Turkish Lira	428	207,015	—	—	—	—	121	207,564
UAE Dirham	100	30,032	—	—	—	—	—	30,132
U.S. Dollar	—	8,646	—	—	—	—	—	8,646
Total investments subject to foreign currency risk	**$ 814,217**	**$ 79,585,794**	**$ 3,839,169**	**$ 5,154,989**	**$ 5,675,749**	**$ (920)**	**$ 52,072**	**$ 95,121,070**

C. Discretely Presented Component Units

The discretely presented component units consist of the University of California (University) and its foundations, the State Compensation Insurance Fund (State Fund), the California Housing Finance Agency (CalHFA), the Public Employees' Benefits Fund administered by CalPERS, and various funds that constitute 3% of the total investments of discretely presented component units. State law, bond resolutions, and investment policy resolutions allow component units to invest in U.S. government securities, state and municipal securities, commercial paper, corporate bonds, investment agreements, real estate, and other investments. Additionally, a portion of the cash and pooled investments of State Fund, CalHFA, and other component units is invested in the State Treasurer's pooled investment program.

The investments of the University of California, a discretely presented component unit, are primarily stated at fair value. Investments authorized by the regents include equity securities, fixed-income securities, and certain other asset classes. The equity portion of the investment portfolio includes domestic and foreign common and preferred stocks, which may be included in actively or passively managed strategies, along with a modest exposure to private equities. Private equities include venture capital partnerships, buy-outs, and international funds. The fixed-income portion of the investment portfolio may include both domestic and foreign securities, as well as certain securitized investments including mortgage-backed and asset-backed securities. Absolute return strategies, incorporating short sales, plus derivative positions to implement or hedge an investment position, are also authorized. Where donor agreements have placed constraints on allowable investments, assets associated with endowments are invested in accordance with the terms of the agreements.

The University participates in a securities lending program as a means to augment income. Campus foundations' cash, cash equivalents, and investments that are invested with the University and managed by the University's treasurer are included in the University's investment pools that participate in a securities lending program. The campus foundations' allocated share of the program's cash collateral received, investment of cash collateral, and collateral held for securities lending is determined based upon the foundations' equity in the investment pools. The board of trustees for each campus foundation may also authorize participation in a direct securities lending program. The University loans securities to selected brokerage firms and receives collateral that equals or exceeds the fair value of such investments during the period of the loan. Collateral may be cash or securities issued by the U.S. government or its agencies, or the sovereign or provincial debt of foreign countries. Securities collateral cannot be pledged or sold by the University unless the borrower defaults. Loans of domestic equities and all fixed-income securities are initially collateralized at 102% of the fair value of the securities loaned. Loans of foreign equities are initially collateralized at 105%. All borrowers are required to provide additional collateral by the next business day if the value falls to less than 100% of the fair value of the securities loaned. The University earns interest and dividends on the collateral held during the loan period, as well as a fee from the brokerage firm, and it is obligated to pay a fee and a rebate to the borrower. The University receives the net investment income. As of June 30, 2012, the University had insignificant exposure to borrower default because the amounts that it owed the borrowers were substantially the same as the amounts the borrowers owed the University. The University is indemnified by its lending agents against any losses incurred as a result of borrower default.

Securities loans immediately terminate upon notice by either the University or the borrower. Cash collateral is invested by the University's lending agents in short-term investment pools in the University's name, with guidelines approved by the University. As of June 30, 2012, the securities in these pools had a weighted average maturity of 26 days.

Table 10 presents the investments, including derivative instruments, of the discretely presented component units by investment type.

Table 10

Schedule of Investments – Discretely Presented Component Units
June 30, 2012
(amounts in thousands)

Investment Type	Fair Value
Equity securities	$ 5,250,701
Debt securities*	34,441,849
Investment contracts	213,305
Mutual funds	6,256,169
Inflation assets	627,871
Real estate	906,510
Money market securities	920,765
Private equity	1,113,585
Mortgage loans	562,806
Externally held irrevocable trusts	158,726
Securities lending collateral	1,742,137
Invested for others	(2,026,728)
Other	2,582,009
Total investments	**$ 52,749,705**

* Debt securities include short-term investments not included in cash and pooled investments.

1. Interest Rate Risk

Interest rate risk for the University's short-term investment pool is managed by constraining the maturity of all individual securities to be less than five and one-half years. There is no restriction on weighted average maturity of the portfolio, as it is managed relative to the liquidity demands of the investors. Portfolio guidelines for the fixed-income portion of the University's general endowment pool limit weighted average effective duration to the effective duration of the Citigroup Large Pension Fund Index and Lehman Aggregate Index, plus or minus 20%.

State Fund guidelines provide that 15% or more of its total portfolio shall be maintained in securities maturing in five years or less. For information about CalPERS' policies related to interest rate risk, refer to Section B, Fiduciary Funds.

Table 11 presents the interest rate risk of the fixed-income or variable-income securities of the major discretely presented component units.

Table 11

Schedule of Investments in Fixed-Income or Variable-Income Securities - Discretely Presented Component Units - Interest Rate Risk

June 30, 2012

(amounts in thousands)

Investment Type	University of California: Fair Value at Year End	University of California: Effective Duration[1]	University of California Foundations: Fair Value at Year End	University of California Foundations: Effective Duration[1]	State Compensation Insurance Fund: Fair Value at Year End	State Compensation Insurance Fund: Weighted Average Maturity (in years)	California Housing Finance Agency: Fair Value at Year End	California Housing Finance Agency: Effective Duration[1]
U.S. Treasury bills, notes, and bonds	$ 556,927	1.30	$ 203,761	2.60	$ —	—	$ —	—
U.S. Treasury strips	152,259	8.40	183	—	—	—	—	—
U.S. Treasury inflation-protected securities	202,814	4.00	—	—	—	—	—	—
U.S. government-backed securities	—	—	9,520	3.40	—	—	—	—
U.S. government-backed asset-backed securities	—	—	589	22.60	—	—	—	—
Corporate bonds	6,092,133	3.60	93,026	3.60	—	—	—	—
Commercial paper	799,493	0.10	—	—	—	—	—	—
U.S. agencies	1,332,192	2.00	5,534	3.80	—	—	—	—
U.S. agencies asset-backed securities	259,768	4.00	73,208	1.50	—	—	—	—
Corporate asset-backed securities	111,893	4.60	31,299	0.60	—	—	—	—
Supranational/foreign	1,630,399	4.40	1,467	1.50	—	—	—	—
Corporate (foreign currency denominated)	33,558	2.10	—	—	—	—	—	—
U.S. bond funds	51,586	5.00	295,978	4.90	—	—	—	—
Non-U.S. bond funds	18,683	—	68,628	5.00	—	—	—	—
Money market funds	420,369	—	459,308	1.80	—	—	—	—
Mortgage loans	562,539	—	267	—	—	—	—	—
Forward contracts on a to-be-announced basis	(26,284)	2.70	278	—	—	—	—	—
U.S. Treasury and agency securities	—	—	—	—	3,705,379	3.80	577,505	16.31
Municipal securities	—	—	—	—	673,353	15.09	—	—
Other government	—	—	—	—	302,330	3.32	—	—
Corporate bonds	—	—	—	—	5,352,157	5.31	—	—
Special revenue	—	—	—	—	1,904,569	15.08	—	—
Mortgage-backed securities	—	—	—	—	8,465,566	24.14	—	—
Other	5,862	14.40	17,903	4.30	—	—	128,102	—
Total	**$ 12,204,191**		**$ 1,260,949**		**$ 20,403,354**		**$ 705,607**	

[1] Effective duration is the approximate change in price of the security resulting from a 100 basis points (1 percentage point) change in the level of interest rates. It is not a measure of time.

Table 12 identifies the debt securities that are highly sensitive to interest rate fluctuations (to a greater degree than already indicated in the information provided previously) because of the existence of prepayment or conversion features, although the effective duration of these securities may be low.

Table 12

Schedule of Highly Sensitive Investments in Debt Securities – University of California and its Foundations – Interest Rate Risk
June 30, 2012
(amounts in thousands)

	University of California		University of California Foundations	
	Fair Value at Year End	Effective Duration	Fair Value at Year End	Effective Duration
Mortgage-Backed Securities These securities are primarily issued by the Federal National Mortgage Association (Fannie Mae), Government National Mortgage Association (Ginnie Mae) and Federal Home Loan Mortgage Corporation (Freddie Mac) and include short embedded prepayment options. Unanticipated prepayments by the obligees of the underlying asset reduce the total expected rate of return.	$ 287,416	4.20	$ 71,999	1.40
Collateralized Mortgage Obligations Collateralized mortgage obligations (CMOs) generate a return based upon either the payment of interest or principal on mortgages in an underlying pool. The relationship between interest rates and prepayments makes the fair value highly sensitive to changes in interest rates. In falling interest rate environments, the underlying mortgages are subject to a higher propensity of prepayments. In a rising interest rate environment, the underlying mortgages are subject to a lower propensity of prepayments.	31,300	2.40	15,013	0.50
Other Asset-Backed Securities Other asset-backed securities also generate a return based upon either the payment of interest or principal on obligations in an underlying pool, generally associated with auto loans or credit cards. As with CMOs, the relationship between interest rates and prepayments makes the fair value highly sensitive to changes in interest rates.	—	—	16,043	1.20
Variable-Rate Securities These securities are investments with terms that provide for the adjustment of their interest rates on set dates and are expected to have fair values that will be relatively unaffected by interest rate changes. Variable-rate securities may have limits on how high or low the interest rate may change. These constraints may affect the market value of the security.	124,876	3.20	—	—
Callable Bonds Although bonds are issued with clearly defined maturities, an issuer may be able to redeem, or call, a bond earlier than its maturity date. The university must then replace the called bond with a bond that may have a lower yield than the original. The call feature causes the fair value to be highly sensitive to changes in interest rates.	1,461,061	2.90	793	2.30
Convertible Bonds Convertible bonds are fixed-income securities with coupon rates that tend to be lower than those in conventional debt issues. Consequently, an increase in the market's rate of interest causes a greater decline in the price of issues of convertible bonds than that of non-convertible bonds.	663	3.80	—	—

2. Credit Risk

The investment guidelines for the University's short-term investment pool provide that no more than 5% of the total market value of the pool's portfolio may be invested in securities rated below investment grade (BB, Ba, or lower). The average credit quality of the pool must be A or better and commercial paper must be rated at least A-1, P-1, or F-1. For its general endowment pool, the University uses a fixed-income benchmark, the Barclays Capital Aggregate Index, comprising approximately 26% high grade corporate bonds and 33% mortgage/asset-backed securities, all of which carry some degree of credit risk. The remaining 41% are government-issued bonds. Credit risk in this pool is managed primarily by diversifying across issuers, and portfolio guidelines mandate that no more than 10% of the market value of fixed-income securities may be invested in issues with credit ratings below investment grade. Further, the weighted average credit rating must be A or higher.

State Fund investment guidelines provide that securities issued and/or guaranteed by the government of Canada and its political subdivisions must be rated Aa3/AA- or better by a nationally recognized statistical rating organization (NRSRO). No single Canadian political subdivision may exceed 1.5% of the book value of the portfolio. Canadian political subdivisions in aggregate shall not exceed 5% of the portfolio. Securities issued and/or guaranteed by the U.S. government, U.S. agencies, and Government Sponsored Entities that have not been rated by an NRSRO will apply the rating assigned by the NRSRO to the issuer or the guarantor of the security.

Table 13 presents the credit risk of the fixed-income or variable-income securities of the major discretely presented component units.

Table 13

Schedule of Investments in Fixed-Income or Variable-Income Securities
Major Discretely Presented Component Units – Credit Risk
June 30, 2012
(amounts in thousands)

Credit Rating as of Year End: Short-term	Long-term	Fair Value
A-1+	AAA	$ 1,067,537
A-1/P-1	AA2/AA	18,407,723
A-2	A2/A	8,526,093
A-3	BAA2/BBB	2,410,478
B	BA2/BB	335,581
B	B2/B	318,925
C	CC or below	73,224
Not rated		1,935,962
Total fixed-income securities		**$ 33,075,523**

3. Concentration of Credit Risk

Investment guidelines addressing concentration of credit risk related to the investment-grade fixed-income portion of the University's portfolio include a limit of no more than 3% of the portfolio's market value to be invested in any single issuer (except for securities issued by the U.S. government or its agencies). These same guidelines apply to the University's short-term investment pool. The University held $1.05 billion in securities issued by the Federal National Mortgage Association, which represents 5% or more of investments as of June 30, 2012. Each campus foundation may have its own individual investment policy designed to limit exposure to a concentration of credit risk.

4. Custodial Credit Risk

The University's securities are registered in its name by the custodial bank as an agent for the University. Other types of investments, represent ownership interests that do not exist in physical or book-entry form. As a result, custodial credit risk is remote.

5. Foreign Currency Risk

The University's portfolio guidelines for U.S. investment-grade fixed-income securities allow exposure to non-U.S. dollar denominated bonds up to 10% of the total portfolio market value. Exposure to foreign currency risk from these securities may be fully or partially hedged using forward foreign currency exchange contracts. Under the University's investment policies, such instruments are not permitted for speculative use or to create leverage.

Table 14 identifies the investments of the University of California – including its campus foundations – that are subject to foreign currency risk.

Table 14

Schedule of Investments – University of California – Foreign Currency Risk
June 30, 2012
(amounts in thousands of U.S. dollars at fair value)

Currency	Equity	Real Estate	Investment Derivatives	Fixed-Income	Total
Australian Dollar	$ 117,247	$ 1,141	$ (1,502)	$ —	$ 116,886
Brazilian Real	—	—	—	4,027	4,027
British Pound Sterling	319,885	717	(733)	—	319,869
Canadian Dollar	148,085	—	(644)	—	147,441
Danish Krone	16,895	—	—	—	16,895
Euro	402,357	883	(1,937)	1,695	402,998
Hong Kong Dollar	48,875	1,575	—	—	50,450
Indonesian Rupiah	—	—	—	2,528	2,528
Japanese Yen	305,260	1,106	—	—	306,366
Malaysian Ringgit	—	—	—	3,835	3,835
Mexican Peso	—	—	—	4,378	4,378
New Russian Ruble	—	—	—	2,152	2,152
Norwegian Krone	16,322	—	—	—	16,322
Polish Zloty	—	—	—	3,573	3,573
Singapore Dollar	28,469	827	—	—	29,296
South African Rand	—	—	—	4,038	4,038
Swedish Krona	40,787	—	(269)	—	40,518
Swiss Franc	121,865	—	—	—	121,865
Turkish Lira	—	—	—	3,752	3,752
Other	38,109	1,619	(627)	3,580	42,681
Commingled currencies	1,237,351	—	—	82,251	1,319,602
Total investments subject to foreign currency risk	**$ 2,841,507**	**$ 7,868**	**$ (5,712)**	**$ 115,809**	**$ 2,959,472**

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NOTE 4: ACCOUNTS RECEIVABLE

Table 15 presents the disaggregation of accounts receivable attributable to taxes, interest expense reimbursements, Lottery retailer collections, the California State University, and unemployment program receipts. Other receivables are for interest, gifts, grants, various fees, penalties, and other charges.

Table 15

Schedule of Accounts Receivable
June 30, 2012
(amounts in thousands)

	Taxes	Reimbursement of Accrued Interest Expense	Lottery Retailers	Unemployment Programs	California State University	Other	Total
Current governmental activities							
General Fund	$ 10,847,461	$ —	$ —	$ —	$ —	$ 930,714	$ 11,778,175
Federal Fund	—	—	—	—	—	714	714
Transportation Fund	481,696	—	—	—	—	292,138	773,834
Environmental and Natural Resources	—	—	—	—	—	420,458	420,458
Nonmajor governmental funds	64,957	—	—	—	—	2,566,290	2,631,247
Internal service funds	—	—	—	—	—	129,073	129,073
Total current governmental activities	**$ 11,394,114**	**$ —**	**$ —**	**$ —**	**$ —**	**$ 4,339,387**	**$ 15,733,501**
Amounts not scheduled for collection during the subsequent year	**$ 1,512,526**	**$ —**	**$ —**	**$ —**	**$ —**	**$ 321,266**	**$ 1,833,792**
Current business-type activities							
Water Resources Fund	$ —	$ —	$ —	$ —	$ —	$ 110,649	$ 110,649
Public Building Construction Fund	—	176,113	—	—	—	—	176,113
State Lottery Fund	—	—	303,164	—	—	—	303,164
Unemployment Programs Fund	—	—	—	1,299,833	—	—	1,299,833
California State University	—	—	—	—	142,685	—	142,685
Nonmajor enterprise funds	—	—	—	—	—	50,819	50,819
Adjustment:							
Account reclassification	—	(176,113)	—	—	—	(2,492)	(178,605)
Total current business-type activities	**$ —**	**$ —**	**$ 303,164**	**$ 1,299,833**	**$ 142,685**	**$ 158,976**	**$ 1,904,658**
Amounts not scheduled for collection during the subsequent year	**$ —**	**$ —**	**$ —**	**$ 29,562**	**$ 239,799**	**$ —**	**$ 269,361**

NOTE 5: RESTRICTED ASSETS

Table 16 presents a summary of the legal restrictions placed on assets in the enterprise funds of the primary government and the discretely presented component units.

Table 16

Schedule of Restricted Assets
June 30, 2012
(amounts in thousands)

	Cash and Pooled Investments	Investments	Due From Other Governments	Loans Receivable	Total
Primary government					
Debt service	$ 1,800,218	$ 386,774	$ 45,618	$ 192,549	$ 2,425,159
Construction	2,331,750	5,652	—	—	2,337,402
Operations	665,000	—	—	—	665,000
Other	2,579	17,860	—	—	20,439
Total primary government	**4,799,547**	**410,286**	**45,618**	**192,549**	**5,448,000**
Discretely presented component units					
Debt service	177,457	41,900	—	—	219,357
Total discretely presented component units	**177,457**	**41,900**	**—**	**—**	**219,357**
Total restricted assets	**$ 4,977,004**	**$ 452,186**	**$ 45,618**	**$ 192,549**	**$ 5,667,357**

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NOTE 6: NET INVESTMENT IN DIRECT FINANCING LEASES

The State Public Works Board, an agency that accounts for its activities as an enterprise fund, has entered into lease-purchase agreements with various other primary government agencies, the University of California, and certain local agencies. Payments from these leases will be used to satisfy the principal and interest requirements of revenue bonds issued by the State Public Works Board.

California State University (CSU) accounts for its lease activities in the State University Dormitory Building Maintenance and Equipment Fund, a major enterprise fund, and has entered into capital lease agreements with certain auxiliary organizations. These agreements lease existing and newly constructed facilities to the auxiliary organizations. A portion of the proceeds from certain revenue bonds issued by CSU were used to finance the construction of these facilities.

Table 17 summarizes the minimum lease payments to be received by the primary government.

Table 17

Schedule of Minimum Lease Payments to be Received by the Primary Government
(amounts in thousands)

Year Ending June 30	Primary Government Agencies	University of California	California State University	Local Agencies	Total
2013	$ 577,664	$ 206,862	$ 28,315	$ 63,671	$ 876,512
2014	580,522	206,896	29,667	63,776	880,861
2015	579,874	198,517	29,618	62,177	870,186
2016	576,202	164,961	27,001	53,892	822,056
2017	610,971	209,767	27,289	46,008	894,035
2018-2022	2,270,051	791,700	144,090	91,721	3,297,562
2023-2027	1,654,255	537,536	151,518	63,453	2,406,762
2028-2032	1,102,498	400,676	143,251	50,276	1,696,701
2033-2037	335,148	70,040	51,524	1,390	458,102
2038-2042	—	—	24,454	—	24,454
2043-2046	—	—	13,480	—	13,480
Total minimum lease payments	**8,287,185**	**2,786,955**	**670,207**	**496,364**	**12,240,711**
Less: unearned income	3,266,995	934,792	277,134	121,485	4,600,406
Net investment in direct financing leases	**$ 5,020,190**	**$ 1,852,163**	**$ 393,073**	**$ 374,879**	**$ 7,640,305**

NOTE 7: CAPITAL ASSETS

Table 18 summarizes the capital activity for the primary government, which includes $7.2 billion in capital assets related to capital leases.

Table 18

Schedule of Changes in Capital Assets – Primary Government
June 30, 2012
(amounts in thousands)

	Beginning Balance (Restated)	Additions	Deductions	Ending Balance
Governmental activities				
Capital assets not being depreciated/amortized				
Land	$ 16,599,039	$ 432,492	$ 37,712	$ 16,993,819
State highway infrastructure	61,493,552	1,212,978	184,400	62,522,130
Collections	22,422	106	—	22,528
Construction in progress	7,510,359	2,763,145	1,501,841	8,771,663
Intangible assets	747,398	265,873	2,502	1,010,769
Total capital assets not being depreciated/amortized	**86,372,770**	**4,674,594**	**1,726,455**	**89,320,909**
Capital assets being depreciated/amortized				
Buildings and improvements	18,344,065	749,156	47,057	19,046,164
Infrastructure	711,937	6,218	—	718,155
Equipment and other assets	4,412,342	223,127	156,557	4,478,912
Intangible assets	615,755	76,813	7,475	685,093
Total capital assets being depreciated/amortized	**24,084,099**	**1,055,314**	**211,089**	**24,928,324**
Less accumulated depreciation/amortization for:				
Buildings and improvements	5,939,482	477,729	20,272	6,396,939
Infrastructure	270,433	22,809	—	293,242
Equipment and other assets	3,492,887	367,004	156,512	3,703,379
Intangible assets	351,742	46,227	5,084	392,885
Total accumulated depreciation/amortization	**10,054,544**	**913,769**	**181,868**	**10,786,445**
Total capital assets being depreciated/amortized, net	**14,029,555**	**141,545**	**29,221**	**14,141,879**
Governmental activities, capital assets, net	**$ 100,402,325**	**$ 4,816,139**	**$ 1,755,676**	**$ 103,462,788**
Business-type activities				
Capital assets not being depreciated/amortized				
Land	$ 214,816	$ 1,390	$ —	$ 216,206
Collections	2,697	555	357	2,895
Construction in progress	1,395,530	616,464	239,650	1,772,344
Intangible assets	220,610	85,736	657	305,689
Total capital assets not being depreciated/amortized	**1,833,653**	**704,145**	**240,664**	**2,297,134**
Capital assets being depreciated/amortized				
Buildings and improvements	9,866,774	367,969	58,117	10,176,626
Infrastructure	188,597	17,378	139	205,836
Equipment and other assets	509,350	63,801	12,988	560,163
Intangible assets	142,592	16,187	736	158,043
Total capital assets being depreciated/amortized	**10,707,313**	**465,335**	**71,980**	**11,100,668**
Less accumulated depreciation/amortization for:				
Buildings and improvements	3,704,748	253,204	49,045	3,908,907
Infrastructure	36,717	9,773	—	46,490
Equipment and other assets	288,179	51,901	8,903	331,177
Intangible assets	85,663	19,198	565	104,296
Total accumulated depreciation/amortization	**4,115,307**	**334,076**	**58,513**	**4,390,870**
Total capital assets being depreciated/amortized, net	**6,592,006**	**131,259**	**13,467**	**6,709,798**
Business-type activities, capital assets, net	**$ 8,425,659**	**$ 835,404**	**$ 254,131**	**$ 9,006,932**

Table 19 summarizes the depreciation expense charged to the activities of the primary government.

Table 19

Schedule of Depreciation Expense – Primary Government
June 30, 2012
(amounts in thousands)

	Amount
Governmental activities	
General government	$ 111,090
Education	185,854
Health and human services	70,700
Resources	54,214
State and consumer services	60,764
Business and transportation	195,955
Correctional programs	187,506
Internal service funds (charged to the activities that utilize the fund)	47,686
Total governmental activities	**913,769**
Business-type activities	**334,076**
Total primary government	**$ 1,247,845**

Table 20 summarizes the capital activity for discretely presented component units.

Table 20

Schedule of Changes in Capital Assets – Discretely Presented Component Units
June 30, 2012
(amounts in thousands)

	Beginning Balance	Additions	Deductions	Ending Balance
Capital assets not being depreciated/amortized				
Land	$ 928,099 *	$ 40,233	$ 3,175	$ 965,157
Collections	332,128	22,346	2,305	352,169
Construction in progress	2,960,695 *	27,671	176,562	2,811,804
Intangible assets	5,090	123	—	5,213
Total capital assets not being depreciated/amortized	**4,226,012**	**90,373**	**182,042**	**4,134,343**
Capital assets being depreciated/amortized				
Buildings and improvements	27,569,831 *	2,314,012	103,398	29,780,445
Infrastructure	632,008	24,552	—	656,560
Equipment and other depreciable assets	9,196,243 *	707,595	324,726	9,579,112
Intangible assets	508,489	183,489	34,037	657,941
Total capital assets being depreciated/amortized	**37,906,571**	**3,229,648**	**462,161**	**40,674,058**
Less accumulated depreciation/amortization for:				
Buildings and improvements	9,829,420 *	927,911	67,523	10,689,808
Infrastructure	262,161	20,908	—	283,069
Equipment and other depreciable assets	6,316,912 *	571,479	258,314	6,630,077
Intangible assets	367,421 *	61,843	27,457	401,807
Total accumulated depreciation/amortization	**16,775,914**	**1,582,141**	**353,294**	**18,004,761**
Total capital assets being depreciated/amortized, net	**21,130,657**	**1,647,507**	**108,867**	**22,669,297**
Capital assets, net	**$ 25,356,669**	**$ 1,737,880**	**$ 290,909**	**$ 26,803,640**

* Restated

NOTE 8: ACCOUNTS PAYABLE

Accounts payable are amounts due taxpayers, vendors, customers, beneficiaries, and employees related to different programs. Table 21 presents details related to accounts payable.

The adjustment for the fiduciary funds represents amounts due fiduciary funds that were reclassified as external payables on the government-wide Statement of Net Assets.

Table 21

Schedule of Accounts Payable
June 30, 2012
(amounts in thousands)

	Education	Health and Human Services	Resources	Business and Transportation	General Government and Others	Total
Governmental activities						
General Fund	$ 117,619	$ 763,964	$ 127,868	$ 10,033	$ 797,579	$ 1,817,063
Federal Fund	171,415	364,367	77,361	486,147	221,052	1,320,342
Transportation Fund	—	32	7,631	401,651	39,377	448,691
Environmental and Natural Resources Fund	5,040	17,623	406,546	32	5,240	434,481
Nonmajor governmental funds	6,877	427,547	6,416	75,883	436,747	953,470
Internal service funds	77	—	14,153	1,248	140,671	156,149
Adjustment:						
Fiduciary funds	10,506,349	10,897,090	111	55,902	653,559	22,113,011
Total governmental activities	**$ 10,807,377**	**$ 12,470,623**	**$ 640,086**	**$ 1,030,896**	**$ 2,294,225**	**$ 27,243,207**
Business-type activities						
Electric Power Fund	$ —	$ —	$ 59,222	$ —	$ —	$ 59,222
Water Resources Fund	—	—	88,025	—	—	88,025
Public Building Construction Fund	—	—	—	—	112,609	112,609
State Lottery Fund	—	—	—	—	42,807	42,807
Unemployment Program Fund	—	3	—	—	—	3
California State University	171,028	—	—	—	—	171,028
Nonmajor enterprise funds	1,000	307	9	182	4,682	6,180
Adjustment:						
Fiduciary funds	—	—	—	17	249	266
Total business-type activities	**$ 172,028**	**$ 310**	**$ 147,256**	**$ 199**	**$ 160,347**	**$ 480,140**

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NOTE 9: SHORT-TERM FINANCING

As part of its cash management program, the State regularly issues short-term obligations to meet cash flow needs. The State issues revenue anticipation notes (RANs) to partially fund timing differences between revenues and expenditures. A significant portion of the General Fund revenues are received in the latter half of the fiscal year, while disbursements are paid more evenly throughout the fiscal year. If additional external cash flow borrowing is required, the State issues revenue anticipation warrants.

To fund cash flow needs for the 2011-12 fiscal year, the State issued $5.4 billion in interim RANs through private placement on July 28, 2011. The interim RANs were repaid on September 22, 2011. In addition, the State issued $5.4 billion in RANs on September 22, 2011, and $1.0 billion through private placement on February 22, 2012. The September 22, 2011 RANs were repaid during May and June of 2012, and the February 22, 2012 RANs were repaid on June 28, 2012.

NOTE 10: LONG-TERM OBLIGATIONS

As of June 30, 2012, the primary government had long-term obligations totaling $167.9 billion. Of that amount, $5.2 billion is due within one year. The largest change in long-term obligations for governmental activities is an increase of $2.9 billion in net other-postemployment-benefits obligations. Another notable increase occurred in general obligation bonds payable.

As of June 30, 2012, the pollution remediation obligations increased by $133 million, to $938 million. Under federal Superfund law, responsibility for pollution remediation is placed upon current and previous owners or operators of polluted sites. Currently, the State's most significant superfund site is the Stringfellow Class 1 Hazardous Waste Disposal Facility (Stringfellow) located in Riverside County. As of June 30, 2012, the State estimates that remediation costs at Stringfellow will total $371 million. At two other sites, Leviathan Mine and BKK Landfill, obligating events have occurred that will probably result in significant liability to the State, but reasonable estimates of the remediation costs cannot be made at this time. Currently, litigation is in process to determine the party responsible for Leviathan Mine, a superfund site. The State's activities at the site relate to water pollution remediation. BKK is a closed Class 1 landfill site at which the State is conducting post-closure care. In addition to superfund sites, the State's other pollution remediation efforts include underground storage tank removal and cleanup, cleanup of polluted groundwater, and contaminated soil removal and cleanup.

Not included in Note 10 are certain state mandated programs that are in the adjudication process. Until the Commission on State Mandates (CSM) rules on a test claim, and parameters and guidelines for the claim have been established, expected costs cannot be reasonably determined; however, a positive finding for any of the claimants could individually or in aggregate pose a significant cost to the State.

The other long-term obligations for governmental activities consist of $3.2 billion for net pension obligations, $128 million owed for lawsuits, the University of California unfunded pension liability of $36 million, and the California Technology Agency notes payable of $22 million. The compensated absences will be liquidated by the General Fund, special revenue funds, capital projects funds, and internal service funds. Workers' compensation and capital leases will be liquidated by the General Fund, special revenue funds, and internal service funds. The General Fund will liquidate net pension obligations, the Proposition 98 funding guarantee, lawsuits, reimbursement of costs incurred by local agencies and school districts for costs mandated by the State, and the University of California pension liability.

The largest change in business-type long-term obligations is a decrease of $2.0 billion for loans payable to the U.S. Department of Labor to cover shortfalls in the Unemployment Programs Fund. The $873 million in other long-term obligations for business-type activities is mainly for advance collections.

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Table 22 summarizes the changes in long-term obligations during the year ended June 30, 2012.

Table 22

Schedule of Changes in Long-term Obligations
(amounts in thousands)

	Balance July 1, 2011	Additions	Deductions	Balance June 30, 2012	Due Within One Year	Noncurrent Liabilities
Governmental activities						
Loans payable	$ 2,122,507	$ 1,008,858	$ —	$ 3,131,365	$ —	$ 3,131,365
Compensated absences payable	3,738,596	1,325,290	1,243,415	3,820,471	18,929	3,801,542
Certificates of participation and commercial paper	1,329,848	210,045	1,496,845	43,048	4,601	38,447
Accreted interest	5,492	428	2,870	3,050	3,050	—
Certificates of participation and commercial paper payable	1,335,340	210,473	1,499,715	46,098	7,651	38,447
Capital lease obligations	4,882,233	528,804	234,696	5,176,341	242,948	4,933,393
General obligation bonds	78,454,755	8,256,025	7,262,965	79,447,815	2,072,555	77,375,260
Premiums/discounts/other	1,014,330	732,539	134,573	1,612,296	89,380	1,522,916
General obligation bonds payable	79,469,085	8,988,564	7,397,538	81,060,111	2,161,935	78,898,176
Revenue bonds	7,722,528	—	163,557	7,558,971	149,048	7,409,923
Accreted interest	271,721	62,455	—	334,176	—	334,176
Premiums/discounts/other	(483,157)	—	(11,208)	(471,949)	(11,686)	(460,263)
Revenue bonds payable	7,511,092	62,455	152,349	7,421,198	137,362	7,283,836
Net other postemployment benefits obligation	9,603,565 *	4,489,968	1,625,650	12,467,883	—	12,467,883
Pollution remediation obligations	804,275	191,948	58,593	937,630	68,593	869,037
Proposition 98 funding guarantee	3,086,851	282,655	1,121,830	2,247,676	—	2,247,676
Mandated costs	5,883,643	673,019	142,580	6,414,082	80,221	6,333,861
Workers' compensation	3,029,856	554,700	381,784	3,202,772	347,062	2,855,710
Other long-term obligations	3,242,566	443,780	317,887	3,368,459	60,121	3,308,338
Total governmental activities	**$ 124,709,609**	**$ 18,760,514**	**$ 14,176,037**	**$ 129,294,086**	**$ 3,124,822**	**$ 126,169,264**
Business-type activities						
Loans payable	$ 10,957,982	$ —	$ 1,989,046	$ 8,968,936	$ —	$ 8,968,936
Lottery prizes and annuities	1,351,702	2,727,819	2,773,468	1,306,053	483,275	822,778
Compensated absences payable	294,463	104,384	99,683	299,164	122,269	176,895
Certificates of participation and commercial paper	139,974	104,503	177,152	67,325	—	67,325
Capital Lease Obligations	791,489	26,198	—	817,687	59,662	758,025
General obligation bonds	1,220,015	—	100,080	1,119,935	82,195	1,037,740
Premiums/discounts/other	(1,376)	75	—	(1,301)	—	(1,301)
General obligation bonds payable	1,218,639	75	100,080	1,118,634	82,195	1,036,439
Revenue bonds	23,224,228	4,013,335	2,755,515	24,482,048	1,269,675	23,212,373
Premiums/discounts/other	66,087	360,603	117,820	308,870	17,323	291,547
Revenue bonds payable	23,290,315	4,373,938	2,873,335	24,790,918	1,286,998	23,503,920
Net other postemployment benefits obligation	318,232 *	147,821	55,271	410,782	—	410,782
Other long-term obligations	845,141	89,071	61,111	873,101	48,071	825,030
Total business-type activities	**$ 39,207,937**	**$ 7,573,809**	**$ 8,129,146**	**$ 38,652,600**	**$ 2,082,470**	**$ 36,570,130**

* Restated

NOTE 11: CERTIFICATES OF PARTICIPATION

Table 23 shows debt service requirements for certificates of participation, which are financed by lease payments from governmental activities. The certificates of participation were used to finance the acquisition and construction of a state office building.

Table 23

Schedule of Debt Service Requirements for Certificates of Participation – Primary Government
(amounts in thousands)

Year Ending June 30	Principal	Interest	Total
2013	$ 7,764	$ 1,999	$ 9,763
2014	8,140	1,361	9,501
2015	8,565	926	9,491
2016	11,915	418	12,333
Total	**$ 36,384**	**$ 4,704**	**$ 41,088**

NOTE 12: COMMERCIAL PAPER AND OTHER LONG-TERM BORROWINGS

The primary government has two commercial paper borrowing programs: a general obligation commercial paper program and an enterprise fund commercial paper program for the Department of Water Resources. Under the general obligation and enterprise fund programs, commercial paper (new issuance or rollover notes) may be issued at the prevailing market rate, not to exceed 11%, for periods not to exceed 270 days from the date of issuance. The proceeds from the initial issuance of commercial paper are restricted primarily for construction costs of general obligation bond program projects and certain state water projects. For both commercial paper borrowing programs, the commercial paper is retired by the issuance of long-term debt, so commercial paper is considered a noncurrent liability.

To provide liquidity for the programs, the State has entered into revolving credit agreements with commercial banks. The current "Letter of Credit" agreement for the general obligation commercial paper program, effective December 21, 2011, authorizes the issuance of notes in an aggregate principal amount not to exceed $1.6 billion. As of June 30, 2012, the general obligation commercial paper program had $10 million in outstanding commercial paper notes for governmental activities. The current agreement for the enterprise fund commercial paper program authorizes the issuance of notes in an aggregate principal amount not to exceed $140 million. As of June 30, 2012, the enterprise fund commercial paper program had $29 million in outstanding notes.

The primary government has a revenue bond anticipation note (BAN) program that consists of borrowing for capital improvements on certain California State University campuses. As of June 30, 2012, $39 million in outstanding BANs existed in anticipation of the primary government issuing revenue bonds to the public.

The University of California, a discretely presented component unit, has established a $2.0 billion commercial paper program with tax-exempt and taxable components. The program is supported by available investments in the University's investment pools. Commercial paper has been issued by the University to provide for interim financing of the construction, renovation, and acquisition of certain facilities and equipment. Commercial paper is secured by a pledge of the net revenues derived from the University's ownership or operation of the projects financed—not by any encumbrance, mortgage, or other pledge of property—and does not constitute a general

obligation of the University. At June 30, 2012, outstanding tax-exempt and taxable commercial paper totaled $235 million and $1.1 billion, respectively. The University has other borrowings consisting of contractual obligations resulting from the acquisition of land or buildings and the construction and renovation of certain facilities. Included in other borrowings, which total $320 million as of June 30, 2012, are various unsecured financing agreements with commercial banks totaling $168 million.

NOTE 13: LEASES

The aggregate amount of lease commitments for facilities and equipment of the primary government in effect as of June 30, 2012, was approximately $9.4 billion. Primary government leases that are classified as operating leases, in accordance with the applicable standards, contain clauses providing for termination. Operating lease expenditures are recognized as being incurred over the lease term. It is expected that, in the normal course of business, most of these operating leases will be replaced by similar leases.

The total present value of minimum capital lease payments for the primary government is comprised of $5.2 billion from governmental activities. Note 10, Long-term Obligations, reports the additions and deductions of capital lease obligations. Also reported in Note 10 are the current and noncurrent portions of the capital lease obligations. Lease expenditures for the year ended June 30, 2012, amounted to approximately $974 million.

Included in the capital lease commitments are lease-purchase agreements, amounting to a present value of net minimum lease payments of $5.0 billion, that certain state agencies have entered into with the State Public Works Board, an enterprise fund agency. This amount represents 97.0% of the total present value of minimum capital lease payments of the primary government. Also included in the capital lease commitments are some lease-purchase agreements to acquire equipment.

The capital lease commitments do not include $346 million in lease-purchase agreements with building authorities that are blended component units. These building authorities acquire or develop office buildings and then lease the facilities to state agencies. Upon expiration of the lease, title passes to the primary government. The costs of the buildings and the related outstanding revenue bonds and certificates of participation are reported in the government-wide financial statements. Accordingly, the lease receivables or capital lease obligations associated with these buildings are not included in the financial statements.

Table 24 summarizes future minimum lease commitments of the primary government.

Table 24

Schedule of Future Minimum Lease Commitments – Primary Government
(amounts in thousands)

Year Ending June 30	Operating Leases	Capital Leases Governmental Activities	Total
2013	$ 312,769	$ 636,599	$ 949,368
2014	236,276	629,963	866,239
2015	152,068	612,366	764,434
2016	99,975	591,697	691,672
2017	52,234	615,088	667,322
2018-2022	92,520	2,274,202	2,366,722
2023-2027	5,313	1,658,556	1,663,869
2028-2032	3,759	1,106,972	1,110,731
2033-2037	3,063	339,548	342,611
2038-2042	2,080	2,777	4,857
2043-2047	498	—	498
2048-2052	425	—	425
2053-2057	121	—	121
2058-2062	65	—	65
2063-2067	33	—	33
2068-2072	33	—	33
2073-2077	33	—	33
2078-2082	33	—	33
2083-2087	33	—	33
2088-2092	33	—	33
2093-2097	33	—	33
2098-2102	6	—	6
Total minimum lease payments	**$ 961,403**	**8,467,768**	**$ 9,429,171**
Less: amount representing interest		3,291,427	
Present value of net minimum lease payments		**$ 5,176,341**	

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The aggregate amount of the major discretely presented component units' lease commitments for land, facilities, and equipment in effect as of June 30, 2012, was approximately $4.7 billion. Table 25 presents the future minimum lease commitments for the University of California and the State Compensation Insurance Fund. Operating lease expenditures for the year ended June 30, 2012, amounted to approximately $240 million for major discretely presented component units.

Table 25

Schedule of Future Minimum Lease Commitments – Major Discretely Presented Component Units
(amounts in thousands)

Year Ending June 30	University of California Capital	University of California Operating	State Compensation Insurance Fund Operating	Total
2013	$ 293,567	$ 102,110	$ 29,590	$ 425,267
2014	309,323	84,972	20,567	414,862
2015	260,751	67,256	13,036	341,043
2016	234,628	51,857	5,363	291,848
2017	228,963	37,080	1,833	267,876
2018-2022	1,085,336	103,483	7,727	1,196,546
2023-2027	826,089	9,816	—	835,905
2028-2032	667,175	4,215	—	671,390
2033-2037	168,341	4,753	—	173,094
2038-2042	38,711	2,694	—	41,405
Total minimum lease payments	**4,112,884**	**$ 468,236**	**$ 78,116**	**$ 4,659,236**
Less: amount representing interest	1,441,804			
Present value of net minimum lease payments	**$ 2,671,080**			

NOTE 14: COMMITMENTS

As of June 30, 2012, the primary government had commitments of $7.4 billion for certain highway construction projects. The primary government also had commitments of $812 million for terrorism prevention and disaster preparedness response projects, $543 million for various education programs, $340 million for services under the workforce development program, $313 million for services provided under various public health programs, $269 million for community service programs, $84 million for services provided under the welfare program, $37 million for services provided under the rehabilitation program, and $22 million for services provided under the child support program.

The primary government had other commitments, totaling $7.7 billion that are not included as a liability on the Balance Sheet or the Statement of Net Assets. The $7.7 billion in commitments includes grant agreements totaling approximately $5.2 billion to reimburse other entities for construction projects for school building aid, parks, transportation-related infrastructure, housing, and other improvements; and to reimburse counties and cities for costs associated with various programs. Any assets that have been constructed will not belong to the primary government, whose payments are contingent upon the other entities entering into construction contracts. The $7.7 billion in commitments includes $433 million in undisbursed loan commitments for various programs aimed at providing housing and emergency shelter to persons in need. In addition, the $7.7 billion in commitments includes $159 million in long-term contracts to purchase power. Most of these contracts qualify for the Normal Purchase Normal Sale (NPNS) exception under GASB 53 and, therefore, are not included on the Statement of Net Assets of the Electric Power Fund nor disclosed in Note 17.

The $7.7 billion in commitments also includes contracts of $838 million for the construction of water projects and the purchase and transmission of power that are not included as a liability on the Statement of Net Assets of the Water Resources Fund. Included in this amount are certain power purchase, sale, and exchange contracts. These contracts had a negative fair value of $7 million as of June 30, 2012. The primary government had commitments of $342 million for California State University (CSU) construction projects. CSU participates in forward-purchase contracts of natural gas and electricity. As of June 30, 2012, CSU's obligation under these special purchase arrangements requires it to purchase at fixed prices an estimated total of $21 million in electricity through March 2014 and $46 million in natural gas through June 2017. The primary government also had commitments of $2 million to veterans for the purchase of properties under contracts of sale. The California State Lottery Commission had commitments of $607 million, of which $602 million is for gaming and telecommunication systems and services and $5 million is for a construction contract. These are long-term projects, and all of the contracts' needs may not have been defined. The projects will be funded with existing and future program resources or with the proceeds of revenue and general obligation bonds.

As of June 30, 2012, the primary government encumbered expenditures of $600 million for the General Fund, $3.8 billion for the Transportation Fund, $1.3 billion for the Environmental and Natural Resources Fund, and $859 million for the nonmajor governmental funds. See Note 2A for an explanation of the primary government's policy concerning encumbrances.

As of June 30, 2012, the discretely presented component units had other commitments that are not included as liabilities on the Statement of Net Assets. The University of California had authorized construction projects totaling $3.1 billion. The University also made commitments to invest in certain investment partnerships pursuant to provisions in the partnership agreements. These commitments totaled $0.7 billion as of June 30, 2012. The California Housing Finance Agency had no outstanding commitments to provide loans under its housing programs. The California Public Employees' Retirement System had capital commitments to private equity funds of $12.5 billion and commitments to purchase real estate equity of $4.9 billion that remained unfunded and not recorded as liabilities on the Statement of Net Assets of either the fiduciary or discretely presented component unit.

NOTE 15: GENERAL OBLIGATION BONDS

The State Constitution permits the primary government to issue general obligation bonds for specific purposes and in such amounts as approved by a two-thirds majority of both houses of the Legislature and by a majority of voters in a general or direct primary election. The debt service for general obligation bonds is appropriated from the General Fund. Under the State Constitution, the General Fund is used first to support the public school system and public institutions of higher education; the General Fund can then be used to service the debt on outstanding general obligation bonds. Enterprise funds and certain other funds reimburse the General Fund for any debt service it provides on their behalf. General obligation bonds that are directly related to, and are expected to be paid from, the resources of enterprise funds are included as a liability of such funds in the financial statements. However, the General Fund may be liable for the payment of any principal and interest on these bonds that is not met from the resources of such funds.

As of June 30, 2012, the State had $79.4 billion in outstanding general obligation bonds related to governmental activities and $1.1 billion related to business-type activities. In addition, $34.4 billion in general obligation bonds had been authorized but not issued, of which $33.1 billion is related to governmental activities and $1.3 billion is related to business-type activities. The total amount authorized but not issued includes $8.8 billion authorized by the applicable finance committees for issuance in the form of commercial paper notes. Of this amount, $10 million in general obligation indebtedness in the form of commercial paper notes was not yet retired by long-term bonds.

Note 10, Long-term Obligations, discusses the change to general obligation bonds payable.

A. Variable-rate General Obligation Bonds

The State issues both fixed and variable-rate general obligation bonds. As of June 30, 2012, the State had $2.7 billion in variable-rate general obligation bonds outstanding, consisting of $814 million in daily rate bonds with credit enhancement and $1.7 billion in weekly rate bonds with credit enhancement, and $198 million in weekly rate bonds without credit enhancement. The interest rates associated with the credit-enhanced bonds are determined by the remarketing agents to be the lowest rate that would allow the bonds to sell on the effective date of such rate at a price (without regard to accrued interest) equal to 100% of the principal amount. The interest rates associated with the unenhanced bonds are determined by the Securities Industry and Financial Markets Association (SIFMA) Index rate then in effect plus a pre-determined spread (SIFMA Index floating rate bonds). The interest on all variable-rate bonds is paid on the first business day of each calendar month.

The credit-enhanced bonds are secured by letters of credit which secure payment of principal and interest on the bonds. Under these letters of credit, the credit providers pay all principal and interest payments to the bondholders; the State is then required to reimburse the credit providers for the amounts paid. Different credit providers exist for each series of variable-rate bonds outstanding. The letters of credit for the variable-rate bonds issued during the 2002-03 fiscal year have expiration dates of December 1, 2012, November 21, 2014, and December 1, 2014. The letters of credit for the variable-rate bonds issued during the 2004-05 fiscal year have an expiration date of October 15, 2012. The letters of credit for the variable-rate bonds issued during the 2005-06 fiscal year have expiration dates of November 12, 2013, April 11, 2014, and November 10, 2014. On May 1, 2012, the State refunded $198 million in variable-rate bonds with letters of credit to SIFMA Index floating rate mode (Series 2012A and 2012B) with no credit enhancement. The series 2012A bonds have a mandatory purchase date of May 1, 2015. The series 2012B bonds have final maturities from 2017 to 2020.

Based on the schedules provided in the Official Statements, sinking fund deposits for the variable-rate general obligation bonds will be set aside in a mandatory sinking fund at the beginning of each of the following fiscal years: the 2015-16 through 2033-34 fiscal years and the 2039-40 fiscal year. The deposits set aside in any fiscal year may be applied, with approval of the State Treasurer and the appropriate bond finance committees, to the redemption of any other general obligation bonds then outstanding. To the extent that the deposit is not applied by January 31 of each fiscal year, the variable-rate general obligation bonds will be redeemed in whole or in part on an interest payment date in that fiscal year.

B. Economic Recovery Bonds

In 2004 voters approved the one-time issuance of Economic Recovery Bonds. The debt service for these bonds is payable from and secured by amounts available in the Economic Recovery Bond Sinking Fund, a debt service fund that consists primarily of revenues from a dedicated sales tax. However, the General Fund may be liable for the payment of any principal and interest on the bonds that cannot be paid from the Economic Recovery Bond Sinking Fund.

As of June 30, 2012, the State had $6.4 billion in Economic Recovery Bonds outstanding. Of the $6.4 billion outstanding, bonds totaling $500 million are variable rate bonds in the daily rate mode. The interest rates associated with the daily rates are determined by the remarketing agents to be the lowest rates that would enable them to sell the bonds for delivery on the effective date of such rate at a price (without regard to accrued interest) equal to 100% of the principal amount. The interest is paid on the first business day of each calendar month. As described in the Official Statement, payment of principal, interest, and purchase price upon tender is secured by direct-pay letters of credit. The State reimburses its credit providers for any amounts paid, plus interest. Different credit providers exist for each series of variable-rate bonds outstanding. The expiration date for these letters of credit is June 13, 2014.

C. Mandatory Tender Bonds

Of the $6.4 billion in outstanding Economic Recovery Bonds, $500 million have interest reset dates of July 1, 2014. At that time, the bonds are subject to mandatory tender for purchase at a price equal to 100% of the principal amount, plus accrued interest, without premium. Upon mandatory tender, the State will seek to remarket these bonds. The debt service requirements published in the Official Statement differ from the calculation included in Table 26 because the statement presumes a successful remarketing at an interest rate of 4.0% per year. The debt service calculation in Table 26 uses the interest rates in effect at year-end, which are the same interest rates in effect until the applicable reset date. In the event of a failed remarketing, the State is required to return all tendered bonds to their initial purchasers and pay an annual interest rate of 11% until the bonds are successfully remarketed.

As of June 30, 2012, the State had $505 million in outstanding general obligation bonds with an April 1, 2013, interest reset date. On the reset date, these bonds are subject to mandatory tender for purchase at a price equal to 100% of the principal amount thereof, plus accrued interest, without premium, unless the bonds have been called for redemption on or prior to that date. If the bonds are not redeemed, the interest rate mode for the bonds will be adjusted to a new mode, and the bonds will be remarketed by a remarketing agent appointed by the State. The State has not obtained any credit enhancement with respect to the mandatory tender of these bonds on the first mandatory tender date and does not expect to do so. The debt service calculation in Table 26 uses the interest rates in effect at year-end, which are the same interest rates in effect until the applicable reset dates, and assumes full redemption of the bonds on April 1, 2039. In the event of a failed remarketing, funding for the payment of principal and interest will be provided by the General Fund.

D. Build America Bonds

As of June 30, 2012, the State had $13.5 billion in taxable various-purpose general obligation bonds outstanding that were issued as "Build America Bonds" under the American Recovery and Reinvestment Act of 2009 (ARRA) signed into law on February 17, 2009. While the bonds mature between 2020 and 2040, one series is part of the mandatory tender bonds described previously that have a reset date of April 1, 2013. Pursuant to the ARRA, the State receives a cash subsidy payment from the United States Treasury equal to 35% of the interest payable by the State on the Build America Bonds on or near each interest payment date. The cash payment does not constitute a full faith and credit guarantee of the United States Government, but is required to be paid by the United States Treasury under the ARRA. The cash subsidy payments received are available for use by the General Fund.

E. Debt Service Requirements

Table 26 shows the debt service requirements for all general obligation bonds as of June 30, 2012. The estimated debt service requirements for the $2.7 billion variable-rate general obligation bonds and the $500 million variable-rate Economic Recovery Bonds are calculated using the actual interest rates in effect on June 30, 2012. The amounts do not reflect any interest subsidy under the Build America Bond program or any other offsets to general fund costs of debt service.

Table 26

Schedule of Debt Service Requirements for General Obligation Bonds
(amounts in thousands)

Year Ending June 30	Governmental Activities Principal	Governmental Activities Interest	Governmental Activities Total	Business-type Activities Principal	Business-type Activities Interest	Business-type Activities Total
2013	$ 2,072,555	$ 4,127,644	$ 6,200,199	$ 82,195	$ 47,815	$ 130,010
2014	2,831,920	4,041,502	6,873,422	104,110	44,406	148,516
2015	3,015,910	3,905,967	6,921,877	77,565	41,129	118,694
2016	2,996,780	3,761,011	6,757,791	75,620	38,115	113,735
2017	2,917,250	3,623,204	6,540,454	61,895	35,414	97,309
2018-2022	15,169,485	16,117,161	31,286,646	187,150	142,255	329,405
2023-2027	11,749,805	12,892,489	24,642,294	96,870	115,777	212,647
2028-2032	12,544,535	10,054,538	22,599,073	220,160	79,826	299,986
2033-2037	14,649,795	6,337,561	20,987,356	146,690	29,839	176,529
2038-2042	11,499,780	1,830,089	13,329,869	67,305	6,520	73,825
2043-2047	—	—	—	375	10	385
Total	$ 79,447,815	$ 66,691,166	$ 146,138,981	$ 1,119,935	$ 581,106	$ 1,701,041

F. General Obligation Bond Defeasances

1. Current Year

On September 28, 2011, the primary government issued $1.0 billion in general obligation refunding bonds to current-refund $1.1 billion in outstanding general obligation bonds maturing in 2012 to 2031. As a result, the refunded bonds are defeased and the liability for those bonds has been removed from the financial statements. The refunding decreased overall debt service by $140 million and resulted in an economic gain of $98 million. The economic gain is the difference between the present value of the old debt service requirements and the present value of the new debt service requirements, discounted at 3.8% per year over the life of the new bonds.

On October 27, 2011, the primary government issued $198 million in general obligation refunding bonds to current-refund $210 million in outstanding mandatory tender general obligation bonds maturing in 2029-39. As a result, the refunded bonds are defeased and the liability for those bonds has been removed from the financial statements. The purpose of this refunding was to reorganize the debt structure of the State.

On November 2, 2011, the primary government issued $439 million in refunding Economic Recovery Bonds to current-refund $436 million in outstanding Economic Recovery Bonds maturing in 2016-17. As a result, the refunded bonds are defeased and the liability of those bonds has been removed from the financial statements. The refunding decreased overall debt service by $23 million and resulted in an economic gain of $23 million. The economic gain is the difference between the present value of the old debt service requirements and the present value of the new debt service requirements, discounted at 1.0% per year over the life of the new bonds.

On March 8, 2012, the primary government issued $1.7 billion and $190 million in general obligation refunding bonds. The $1.7 billion bonds current-refunded and advance-refunded $1.8 billion in outstanding general obligation bonds maturing in 2013-33. The $190 million bonds refunded $200 million in outstanding commercial paper. As a result, the refunded bonds and commercial paper are defeased and the liability for those bonds and commercial paper has been removed from the financial statements. The bond refunding decreased overall debt service by $260 million and resulted in an economic gain of $202 million. The economic gain is the difference between the present value of the old debt service requirements and the present value of the new debt service requirements, discounted at 3.1% per year over the life of the new bonds.

On April 24, 2012, the primary government issued $454 million in general obligation refunding bonds to advance-refund $492 million in outstanding general obligation bonds maturing in 2013-23. As a result, the refunded bonds are defeased and the liability for those bonds has been removed from the financial statements. The refunding decreased overall debt service by $58 million and resulted in an economic gain of $53 million. The economic gain is the difference between the present value of the old debt service requirements and the present value of the new debt service requirements, discounted at 3.8% per year over the life of the new bonds.

On May 1, 2012, the primary government issued $198 million in refunding SIFMA Index floating rate general obligation bonds to current-refund $198 million in outstanding variable rate general obligation bonds maturing in 2033 and 2040. The purpose of this refunding was to reorganize the debt structure of the State.

2. Prior Years

In prior years, the primary government placed the proceeds of the refunding bonds in a special irrevocable escrow trust account with the State Treasury to provide for all future debt service payments on defeased bonds. The assets of the trust accounts and the liability for defeased bonds are not included in the State's financial statements. As of June 30, 2012, the outstanding balance of general obligation bonds defeased in prior years was approximately $1.1 billion.

NOTE 16: REVENUE BONDS

A. Governmental Activities

The State Treasurer is authorized by state law to issue Federal Highway Grant Anticipation Revenue Vehicles (GARVEE bonds). The purpose of these bonds is to accelerate the funding and construction of critical transportation infrastructure projects in order to provide congestion relief benefits to the public significantly sooner than with traditional funding mechanisms. These bonds are secured and payable from the annual federal appropriation for the State's federal-aid transportation projects. The primary government has no legal liability for the payment of principal and interest on these revenue bonds. Total principal and interest remaining on the bonds is $310 million, payable through 2020. In addition, the California Alternative Energy and Advanced Transportation Financing Authority is authorized to issue Clean Renewable Energy Bonds to fund the acquisition and installation of certain transportation-related solar energy facilities located throughout the state. Both of these bonds fund activity in the Transportation Fund and are included in the governmental activities column of the government-wide Statement of Net Assets.

The Golden State Tobacco Securitization Corporation (GSTSC), a blended component unit, is authorized by state law to issue asset-backed bonds to purchase the State's rights to future revenues from the Master Settlement Agreement with participating tobacco companies. These bonds are secured by and payable solely from future Tobacco Settlement Revenue and interest earned on that revenue. The primary government has no legal liability for the payment of principal and interest on the bonds; provided that, in connection with the issuance of the 2005 Bonds, the Legislature has annually granted a General Fund appropriation for payment of debt service in the event tobacco settlement revenues and other available amounts prove insufficient to make these payments during the next succeeding fiscal year. However, the use of the appropriated moneys has never been required. Total principal and interest remaining on all asset-backed bonds is $19.6 billion, payable through 2047. All of the Tobacco Settlement Revenue and interest has been pledged in support of these asset-backed bonds. Principal and interest paid in the current year totaled $379 million, while Tobacco Settlement Revenue and interest earned totaled $369 million. These bonds are included in the governmental activities column of the government-wide Statement of Net Assets.

Under state law, certain building authorities may issue revenue bonds. These bonds are issued for the purpose of constructing state office buildings. Leases with state agencies pay the principal and interest on the revenue bonds issued by the building authorities. The primary government has no legal liability for the payment of principal and interest on these revenue bonds. These revenue bonds are included in the governmental activities column of the government-wide Statement of Net Assets.

B. Business-type Activities

Revenue bonds that are directly related to, and are expected to be paid from, the resources of enterprise funds are included in the accounts of such funds. Principal and interest on revenue bonds are payable from the pledged revenues of the respective funds of agencies that issued the bonds. The General Fund has no legal liability for payment of principal and interest on revenue bonds.

Revenue bonds to acquire, construct, or renovate state facilities or to refund outstanding revenue bonds in advance of maturity are issued for water resources, public building construction, financing of electric power purchases for resale to utility customers, and certain nonmajor enterprise funds.

C. Discretely Presented Component Units

The University of California issues revenue bonds to finance various auxiliary, administrative, academic, medical center, and research facilities. The revenue bonds are not collateralized by any encumbrance, mortgage, or other pledge of property except pledged revenues, and do not constitute general obligations of the University.

Under state law, the California Housing Finance Agency (CalHFA) issues fixed- and variable-rate revenue bonds to fund loans to qualified borrowers for single-family houses and multifamily developments. Variable-rate debt is typically related to a common index, such as the Securities Industry and Financial Markets Association (SIFMA) or the London Interbank Offered Rate (LIBOR) and is reset periodically. CalHFA issues both federally taxable and tax-exempt bonds. The bonds issued by CalHFA are payable solely from and collateralized by revenues and other pledged assets.

Table 27 shows outstanding revenue bonds of the primary government and the discretely presented component units.

Table 27

Schedule of Revenue Bonds Outstanding
June 30, 2012
(amounts in thousands)

Primary government	
Governmental activities	
Transportation Fund	$ 305,629
Nonmajor governmental funds	
Golden State Tobacco Securitization Corporation Fund	6,783,820
Building authorities	331,749
Total governmental activities	**7,421,198**
Business-type activities	
Electric Power Fund	7,259,000
Water Resources Fund	2,427,356
Public Building Construction Fund	10,882,974
California State University	3,595,530
Nonmajor enterprise funds	626,058
Total business-type activities	**24,790,918**
Total primary government	**32,212,116**
Discretely presented component units	
University of California	13,027,116
California Housing Finance Agency	6,597,445
Nonmajor component units	535,932
Total discretely presented component units	**20,160,493**
Total	**$ 52,372,609**

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Table 28 shows the debt service requirements for fixed-rate and variable-rate bonds. It excludes certain unamortized refunding costs, premiums, discounts, and other costs that are included in Table 27.

Table 28

Schedule of Debt Service Requirements for Revenue Bonds
(amounts in thousands)

	Primary Government				Discretely Presented Component Units	
Year Ending June 30	Governmental Activities Principal	Governmental Activities Interest	Business-type Activities Principal	Business-type Activities Interest*	Principal	Interest*
2013	$ 149,048	$ 353,956	$ 1,269,675	$ 1,217,699	$ 706,516	$ 853,499
2014	158,403	360,647	1,357,635	1,157,031	732,545	829,717
2015	132,858	352,917	1,412,145	1,093,084	463,082	803,919
2016	70,983	346,388	1,477,135	1,026,413	498,102	779,390
2017	118,033	342,875	1,519,610	955,638	495,598	754,420
2018-2022	776,738	1,636,913	8,083,498	3,621,413	2,754,285	3,401,001
2023-2027	637,428	1,693,560	3,829,050	2,037,024	2,974,359	2,752,415
2028-2032	859,579	1,420,101	3,468,495	1,056,935	3,386,440	2,087,122
2033-2037	1,183,673	1,199,467	1,665,930	310,299	3,238,900	1,400,720
2038-2042	1,635,700	864,081	368,360	47,696	2,563,285	780,974
2043-2047	2,170,704	3,909,183	30,515	1,314	858,950	444,885
2048-2052	—	—	—	—	389,963	258,888
2053-2112	—	—	—	—	860,000	2,506,728
Total	**$ 7,893,147**	**$ 12,480,088**	**$ 24,482,048**	**$ 12,524,546**	**$ 19,922,025**	**$ 17,653,678**

* Includes interest on variable-rate bonds based on rates in effect on June 30, 2012.

D. Revenue Bond Defeasances

1. Current Year—Governmental Activities

The primary government did not issue any refunding bonds in the 2011-12 fiscal year.

2. Current Year—Business-type Activities

In September 2011, the primary government issued $92 million in water system revenue bonds. The bond proceeds were used to current-refund $103 million in outstanding water system revenue bonds. The proceeds were deposited into an escrow account to provide for all future debt service payments on the refunded bonds. As a result, the bonds are considered defeased and the liability for those bonds has been removed from the financial statements. This refunding will decrease debt service payments by $34 million over the life of the bonds and will result in an economic gain of $25 million for the refunded bonds. These water system revenue bonds are reported in the Water Resources Fund.

In August 2011, the primary government issued $960 million in fixed-rate power supply revenue bonds to current-refund $948 million in outstanding variable-rate bonds. In addition, $159 million in outstanding fixed-rate bonds were advance refunded to take advantage of lower interest rates. The proceeds were deposited into an escrow account to provide for all future debt service payments on the refunded bonds. As a result, the bonds are considered defeased and the liability for these bonds has been removed from the financial statements. The refunding decreased overall debt service payments by $8 million and resulted in an economic gain of $5 million. The power supply revenue bonds are reported in the Electric Power Fund.

For the year ended June 30, 2012, the Department of Veterans Affairs issued home purchase revenue bonds totaling $321,585,000 of which $308,260,000 was used to refund certain outstanding home purchase revenue bonds and $13,325,000 was available to finance new and existing contracts of purchase. These Veterans Affairs Revenue bonds are reported in the Housing Loan Fund.

3. Current Year—Discretely Presented Component Units

In August 2011, the University of California issued $400 million in general revenue bonds. A portion of the proceeds were used to refund $228 million in outstanding revenue bonds. The bonds mature at various dates through 2041 and have a weighted average interest rate of 4.9%. The deferred premium will be amortized as a reduction to interest expenses over the term of the bonds.

4. Prior Years

In prior years, the primary government defeased certain bonds by placing the proceeds of new bonds in irrevocable trust accounts to provide for all future debt service requirements. Accordingly, the assets and liabilities for these defeased bonds are not included in the financial statements. As of June 30, 2012, the outstanding balance of revenue bonds defeased in prior years was $4.0 billion for governmental activities and $326 million for business-type activities.

In prior years, the University of California, a discretely presented component unit, defeased certain bonds. Investments that have maturities and interest rates sufficient to fund retirement of defeased liabilities are being held in irrevocable trusts for the debt service payments. Accordingly, the assets of the trust accounts and the liabilities for the defeased bonds are not included in the State's financial statements. As of June 30, 2012, the outstanding balance of University revenue bonds defeased in prior years was $465 million.

NOTE 17: DERIVATIVE FINANCIAL INSTRUMENTS

Certain primary government business-type activities and discretely presented component units use derivatives—including futures, forward contracts, options, and interest rate swap contracts—as a substitute for investment in equity and fixed-income securities to reduce the effect of fluctuating foreign currencies on foreign currency-denominated investments or to limit its exposure of variable-rate bonds to changes in market interest rates.

A futures contract is an agreement between two parties to buy and sell a security, financial index, interest rate, foreign currency at a set price on a future date. Future contracts are standardized contracts that can be easily bought and sold and are exchange-traded. A futures contract obligates a buyer to purchase the commodity or financial instrument and a seller to sell it, unless an offsetting contract is entered into to offset one's obligation. The resources or obligations acquired through these contracts are usually terminated by entering into offsetting contracts.

Forward contracts are similar to futures contracts, although they are not exchange-traded. One example of a forward contract is a foreign currency exchange contract used to hedge against foreign currency exchange rate

risks on non-U.S. dollar-denominated investment securities and increase or decrease exposure to various foreign currencies.

Rights and warrants provide the holder with the right, but not the obligation, to buy a stock at a predetermined price for a finite period of time. Warrants usually have a longer time period to expiration. The holder of a right or warrant is permitted to buy at a price that may be below the actual market price for that stock. Warrants and rights cease to exist and become worthless if not used by their expiration date.

An option contract gives the State the right, but not the obligation, to buy or sell a financial instrument or commodity at a fixed price during a specified period for a nonrefundable fee.

The State considers its futures, forward contracts, and options to be investment derivatives. A swap is a contractual agreement to exchange future cash flows. These cash flows may be either fixed or variable and may be either received or paid. The State holds interest rate swaps as both investment derivatives and hedging derivatives.

Table 29 shows debt service requirements as of June 30, 2012, for variable-rate debt included in Table 28, as well as net swap payments, assuming that current interest rates remain the same for their terms. As interest rates vary, variable-rate bond interest payments and net swap payments will vary.

Table 29

Schedule of Debt Service and Swap Requirements for Variable-rate Revenue Bonds
(amounts in thousands)

	Discretely Presented Component Units			
Year Ending June 30	Principal	Interest*	Interest-Rate* Swap Net	Total
2013	$ 20,085	$ 11,132	$ 92,714	$ 123,931
2014	21,700	10,971	85,484	118,155
2015	33,050	10,864	79,004	122,918
2016	49,220	10,738	73,062	133,020
2017	47,060	10,561	67,583	125,204
2018-2022	329,600	49,865	273,676	653,141
2023-2027	335,880	43,953	197,721	577,554
2028-2032	561,810	36,903	129,389	728,102
2033-2037	422,620	28,550	56,468	507,638
2038-2042	784,555	14,629	11,083	810,267
2043-2047	46,530	586	216	47,332
Total	**$ 2,652,110**	**$ 228,752**	**$ 1,066,400**	**$ 3,947,262**

* Based on rates in effect on June 30, 2012.

A. Primary Government

The Department of Water Resources (DWR) is party to natural gas hedging positions that are considered to be derivatives. Table 30 summarizes the fair values, classification, and notional amounts outstanding for the DWR's natural gas hedges accounted for as derivative financial instruments.

Table 30

Schedule of Fair Values and Notional Amounts - Electric Power Fund
June 30, 2012
(dollars in thousands)

	Classification	Fair Value	Notional Amount (in MMBtu)[1]
Effective hedges			
Natural gas swaps	Other current liabilities	$ (1,000)	305,000
	Other noncurrent liabilities	(1,000)	382,500
Total effective hedges		$ (2,000)	
Investment hedges			
Natural gas swaps	Other current liabilities	$ (5,000)	990,000
Natural gas options	Other current assets	—	200,000
Total investment hedges		$ (5,000)	

[1] Millions of British thermal units.

1. Natural Gas Swaps and Options

Objective: The DWR enters into forward gas futures and options contracts to hedge the cost of natural gas. Most of the DWR's forward gas futures are being treated as Normal Purchase Normal Sale (NPNS) contracts and are therefore not required to be recorded prior to settlement. Forward gas futures not qualifying as NPNS are recorded on the Statement of Net Assets at fair value. All natural gas options are treated as derivatives and are classified as investment derivatives. For the DWR's gas hedging contracts that are effective hedges, unrealized gains and losses are deferred on the statement of net assets as other current assets or liabilities for contracts with fewer than 12 months remaining until expiration, or as other noncurrent assets or liabilities for contracts with more than 12 months remaining until expiration. The deferred amount recorded on the Statement of Net Assets reflects the deferred inflow or outflow associated with the derivative financial instruments. Changes in fair value of derivatives that are classified as investment derivatives are included as investment and interest income on the Statement of Revenues, Expenses, and Changes in Fund Net Assets.

Fair Value: The reported fair values from Table 30 above were determined based on quoted market prices for similar financial instruments.

Credit Risk: The DWR's open natural gas hedge positions at June 30, 2012, have been entered into through the DWR's brokerage accounts and the associated clearing accounts have collateral requirements that limit the DWR's counterparty credit risk.

As of June 30, 2011, the DWR's open natural gas hedge positions were with nine different counterparties, all of which have credit ratings of at least A-/Baa1. At June 30, 2011, the DWR had credit risk exposure to three counterparties totaling $2 million, representing transactions with market values that are in the DWR's favor. There was no substantial credit exposure to the remaining six counterparties, as the decrease of natural gas prices has resulted in valuations in the counterparties' favor and fewer hedges are outstanding as the need for natural gas has decreased with the expiration of power purchase contracts. The remaining gas hedge positions have been entered into through the DWR's brokerage accounts and the associated clearing accounts have collateral requirements that limit the DWR's counterparty credit risk.

Termination Risk: With regards to gas hedge agreements, the DWR or the counterparty may terminate an agreement if the other party fails to perform under the terms of the contract. In addition, the agreements allow either party to terminate in the event of a significant loss of creditworthiness by the other party. If a termination were to occur, the DWR or the counterparty would owe the other a payment equal to the fair value of the open positions.

B. Fiduciary Funds

Under the State Constitution and statutory provisions governing the investment authority of the California Public Employees' Retirement System (CalPERS), CalPERS holds investments in swaps, options, futures, rights, and warrants and enters into forward foreign currency exchange contracts. The fair value of options, futures, rights, and warrants is determined based on quoted market prices. The fair value of derivative investments that are not exchange traded, such as swaps, is determined by an external pricing service using various proprietary methods, based on the type of derivative instrument. Futures contracts are marked-to-market at the end of each trading day and the settlement of gains or losses occur on the following business day through the movement of variation margins. Over the counter derivatives, such as swaps, generally reset monthly and the settlement of gains or losses occur the following business day. Currency forward contracts roll quarterly, updating the contract exchange rate. The fair value of international currency forwards represents the unrealized gain or loss on the related contracts, which is calculated as the difference between the contract exchange rate and the exchange rate at the end of the reporting period.

The California State Teachers' Retirement System (CalSTRS) also holds investments in derivative instruments. CalSTRS' investments that are not exchange traded, such as credit default swaps and interest rate swaps, are valued using methods employed for debt securities. Futures contracts are financial instruments that derive their value from underlying indices or reference rates and are marked-to-market at the end of each trading day. Daily settlement of gains or losses occurs on the following business day. As a result, the derivative instruments themselves have no fair value at June 30, 2012, or at the end of any trading day. Daily settlement of gains and losses is a risk control measure to limit counterparty credit risk. Futures variation margin amounts are settled each trading day and are recognized as net appreciation or depreciation in fair value of investments as they are incurred.

CalSTRS holds foreign currency forwards, which are obligations to buy or sell a currency at a specified exchange rate and quantity on a specific future date. The fair value of foreign currency forwards is the unrealized gain or loss calculated based on the difference between the specified exchange rate and the closing exchange rate at June 30, 2012. Derivatives with positive fair values are recorded as investments in the statement of fiduciary net assets. Derivatives with negative fair values are recorded as accounts payable in the statement of fiduciary net assets. Changes in fair value are recorded as net appreciation or depreciation in fair value of investments in the statement of changes in fiduciary net assets.

All fiduciary fund derivative instruments are included in the investments disclosed in Note 3, Deposits and Investments. Table 31 presents the net appreciation (depreciation) in fair value, the fair values, and notional amounts of derivative instruments outstanding of these fiduciary funds.

Table 31

Schedule of Changes in Fair Values, Fair Values, and Notional Amounts - Fiduciary Funds
June 30, 2012
(dollars in thousands)

Investment Type	Net Appreciation (Depreciation) in Fair Value	Classification	Fair Value Amount	Notional Dollars	Notional Units
Commodity futures long	$ (1,280)	Investment sales/purchases	$ —	$ —	—
Commodity futures short	382	Investment sales/purchases	—	—	—
Credit default swaps	9,112	Debt securities	1,250	63,972	—
Credit default swaps bought	2,074	Debt securities	8,804	47,890	—
Credit default swaps written	(532)	Debt securities	(225)	73,590	—
Equity options bought	1,194	Equity securities	—	—	—
Equity options written	1,415	Equity securities	—	—	—
Fixed-income futures long	29,688	Investment sales/purchases	—	128,807	—
Fixed-income futures short	(25,909)	Investment sales/purchases	—	(133,170)	—
Fixed-income options bought	(8,462)	Equity securities	—	—	—
Fixed-income options written	50,777	Equity securities	(5,054)	—	(1,464,754)
Foreign currency options bought	(1,138)	Equity securities	—	—	—
Foreign currency options written	423	Equity securities	—	—	—
Foreign currency forwards	(33,929)	Foreign currency contracts	(1,025)	5,729,128	—
Futures options written	1,159	Equity securities	—	—	—
Futures (domestic and foreign)	170,123	Futures	—	(69,517)	—
Foreign exchange forwards	521,892	Investment sales/purchases	53,097	24,039,898	—
Index futures long	433,751	Investment sales/purchases	—	77,977	—
Interest-rate swaps	(46,925)	Debt securities	(16,872)	150,000	—
Options	12,829	Debt securities	14,316 [1]	265,908	—
Pay fixed-interest-rate swaps	(13,256)	Debt securities	(3,290)	110,428	—
Receive fixed-interest-rate swaps	12,351	Debt securities	8,707	157,646	—
Rights	5,123	Equity securities	4,887	—	28,986
Total return bond swaps	163,033	Debt securities	33,683	3,251,448	—
Warrants	536	Equity securities	5,724	—	4,866
Total	**$ 1,284,431**		**$ 104,002**	**$ 33,894,005**	**(1,430,902)**

[1] The total options of $14,316 is comprised of options bought and options written of $14,480 and $(164), respectively.

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Interest Rate Risk: Table 32 describes the maturity periods of the derivative instruments during which these fiduciary funds were exposed to interest rate risk.

Table 32

Schedule of Derivative Instruments Subject to Interest Rate Risk - Fiduciary Funds
June 30, 2012
(amounts in thousands)

Investment Type	Fair Value	Investment Maturities (in years) Under 1	1-10	10+
Credit default swaps	$ 1,250	$ —	$ (616)	$ 1,866
Credit default swaps bought	8,804	(4)	705	8,103
Credit default swaps written	(225)	15	(240)	—
Fixed-income options	13,450	13,450	—	—
Fixed-income options written	(5,054)	(5,054)	—	—
Interest-rate swaps	(16,872)	—	(16,872)	—
Pay fixed-interest-rate swaps	(3,290)	—	(3,290)	—
Receive fixed-interest-rate swaps	8,707	—	4,122	4,585
Total return bond swaps	33,683	33,683	—	—
Total	**$ 40,453**	**$ 42,090**	**$ (16,191)**	**$ 14,554**

Table 33 details the reference rate, fair value, and notional amount of the derivative instruments held by these fiduciary funds that were highly sensitive to changes in interest rate risk.

Table 33

Schedule of Derivative Instruments Highly Sensitive to Interest Rate Changes - Fiduciary Funds
June 30, 2012
(amounts in thousands)

Investment Type	Reference Rate	Fair Value	Notional Amount
Interest-rate swaps	Receive variable 3-month LIBOR, pay fixed 3.575%	$ (16,872)	$ 150,000
	Receive variable 3-month LIBOR, pay fixed 2.09625%	(245)	9,840
	Receive variable 3-month LIBOR, pay fixed 2.25%	(2,494)	56,200
	Receive variable 3-month LIBOR, pay fixed 2.04125%	(279)	10,060
	Receive variable 3-month LIBOR, pay fixed 1.97375%	(272)	11,110
	Receive variable 3-month BBSW[1], pay fixed 3.1%	—	23,218
	Receive fixed 2.00%, pay variable 6-month LIBOR[2]	3,964	53,265
	Receive fixed 1.00%, pay variable 6-month LIBOR	621	52,638
	Receive fixed 6.96%, pay variable 1-month TIIE[3]	3,020	33,614
	Receive fixed 6.65%, pay variable 1-month TIIE	1,084	16,237
	Receive fixed 5.50%, pay variable 1-month TIIE	18	1,892
Subtotal Interest-rate swaps		**$ (11,455)**	**$ 418,074**
Fixed-income options	Swaption 5YR RTR May 13 3.075 CALL	$ 13,343	$ 150,000
	Swaption Payer Sept 0.92 PUT	156	11,000
	Swaption Payer Sept 0.93 PUT	11	4,016
	Swaption Payer Sept 0.87 PUT	(59)	(11,000)
	Swaption Payer Sept 0.88 PUT	(1)	(4,016)
Subtotal Fixed-income options		**$ 13,450**	**$ 150,000**
Return bond swaps	Receive fixed 0.00%, pay fixed 1.25%	$ (2,725)	$ 127,904
	Receive fixed 0.00%, pay fixed 0.90%	3,126	261,652
	Receive fixed 0.00%, pay fixed 0.80%	15,192	1,042,424
	Receive fixed 0.00%, pay fixed 0.75%	(1,975)	146,205
	Receive fixed 0.00%, pay fixed 0.70%	20,065	1,673,263
Subtotal Return bond swaps		**$ 33,683**	**$ 3,251,448**
	Total	**$ 35,678**	**$ 3,819,522**

[1] Bank Bill Swap Rate (BBSW)
[2] London Interbank Offered Rate (LIBOR)
[3] Tasa de Interes Interbancaria de Equilibrio (TIIE)

Credit Risk: With all over-the-counter derivatives, such as swaps and currency forwards, CalPERS is exposed to counterparty risk. CalPERS seeks to control this risk through counterparty credit evaluations and approvals, counterparty credit limits, posting collateral and exposure monitoring procedures.

Table 34 details the counterparty, percent of net exposure, and credit ratings for the derivative instruments held by CalPERS that were subject to credit risk.

Table 34

Schedule of Derivative Instruments Subject to Credit Risk - California Public Employees' Retirement System
June 30, 2012

Counterparty	Percent of Net Exposure	S&P Ratings	Fitch Ratings	Moody's Ratings
Barclays Bank	26.62 %	A	A	A3
JP Morgan Chase	12.68	A	A+	A2
Bank of America	9.15	A-	A	Baa2
UBS AG	8.94	A	A	A2
Royal Bank of Canada	8.71	AA-	AA	Aa3
Toronto Dominion Bank	7.18	AA-	AA-	Aaa
Credit Suisse	6.55	A	A	A2
Westpac Banking Corporation	5.02	AA-	AA-	Aa2
Goldman Sachs and Co.	3.35	A-	A	A3
Deutsche Bank AG	3.34	A+	A+	A2
Morgan Stanley	1.91	A-	A	Baa1
Citibank	1.84	A-	A	Baa2
Bank of Montreal	1.13	A+	AA-	Aa2
Commonwealth Bank of Australia	0.82	AA-	AA-	Aa2
HSBC	0.76	A+	AA	Aa3
Mellon Bank	0.68	A+	AA-	Aa3
Royal Bank of Scotland PLC	0.65	A-	A	Baa1
Standard Chartered Bank	0.39	A+	AA-	A2
BNP Paribas	0.28	AA-	A+	A2

In cases where a wholly owned broker-dealer subsidiary does not engage the rating companies for a standalone rating, the subsidiary is assigned the parent-company rating, as the broker-dealer is an integral part of their business model(s). With the exception of foreign currency forwards, it is CalSTRS' practice to require counterparty collateral posting provisions in its non-exchange-traded derivative instruments where doing so is consistent with market practice. As of June 30, 2012, the aggregate amount of cash collateral held at CalSTRS on behalf of the non-exchange-traded derivatives was $13 million. The aggregate fair value of investment derivative instruments in an asset position subject to counterparty credit risk at June 30, 2012, was $9 million. This represents the maximum loss that would be recognized at the reporting date if all counterparties failed to perform as contracted.

CalSTRS did not have any master netting agreements with its counterparties at June 30, 2012; however, Table 35 presents exposure for similar instruments with the same counterparty on a net basis and describes the counterparty credit ratings for the non-exchange-traded derivative instruments held by CalSTRS that were outstanding and subject to loss.

Table 35

Schedule of Counterparty Credit Rating - California State Teachers' Retirement System
June 30, 2012
(amounts in thousands)

Ratings	Credit Default Swaps	Interest-Rate Swaps	Foreign Currency Forwards	Total
AA	$ —	$ —	$ 1,758	$ 1,758
A	2,846	—	3,988	6,834
BBB	269	—	66	335
Subtotal investments in asset position	**3,115**	**—**	**5,812**	**8,927**
Investments in liability position	(1,865)	(16,872)	(6,837)	(25,574)
Total investments in asset/ (liability) position	**$ 1,250**	**$ (16,872)**	**$ (1,025)**	**$ (16,647)**

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C. Discretely Presented Component Unit - University of California

The University of California, a discretely presented component unit, holds investment derivatives in futures, forward contracts, options, and interest rate swap contracts. The Board of Trustees for each campus foundation may also authorize derivatives in its investment policy. The University enters into futures contracts for the purpose of acting as a substitute for investment in equity and fixed-income securities. The University also holds interest-rate swaps that are derivative instruments that meet the criteria for an effective hedge. Certain of the interest-rate swaps are considered hybrid instruments because, at the time of execution, the fixed rate on each of the swaps was off-market and the University received an up-front payment. As such, these swaps are comprised of a derivative instrument, an at-the-market swap that is an effective hedge, and a companion instrument, a borrowing represented by the up-front payment. The unamortized amount of the borrowing under the companion instrument was $30 million at June 30, 2012. Derivatives are recorded at fair value as either assets or liabilities in the statement of net position. Certain derivatives are determined to be hedging derivatives and are designated as either a fair value or cash-flow hedge. Under hedge accounting, changes in the fair value of hedging derivatives are considered to be deferred inflows (for hedging derivatives with positive fair values) or deferred outflows (for hedging derivatives with negative fair values). Deferred inflows are included with other noncurrent liabilities and deferred outflows with other noncurrent assets in the Statement of Net Assets. Changes in the fair value of derivatives that are not hedging derivatives are reported as net appreciation or depreciation of investments in the Statement of Activities.

Table 36 summarizes the fair value balances and notional amounts of derivative instruments outstanding, categorized by type, and the changes in fair value of such derivatives.

Table 36

Schedule of Changes in Fair Values, Fair Values, and Notional Amounts - University of California
June 30, 2012
(amounts in thousands)

	Changes in Fair Value	Classification	Fair Value	Notional Amount
Investment derivatives				
Domestic equity futures contracts long	$ 12,294	Investments	$ 9,524	$ 371,221
Domestic equity futures contracts short	(60)	Investments	(62)	(2,578)
Foreign equity futures contracts long	11,639	Investments	877	43,766
Foreign equity futures contracts short	729	Investments	(57)	(6,252)
Foreign currency exchange contracts long	16,054	Investments	270	24,541
Foreign currency exchange contracts short	9,779	Investments	(6,978)	(674,570)
Swaps fixed interest rate	(32,803)	Investments	(32,879)	1,050,000
Swaps total return equity	32	Investments	(19)	7
Stock rights/warrants	(969)	Investments	2,746	458
Options/swap	(2)	Investments	294	34,778
Total investment derivatives	**$ 16,693**		**$ (26,284)**	**$ 841,371**
Cash flow hedges				
Interest-rate swaps				
Pay fixed, receive variable	$ (22,404)	Other noncurrent assets (liabilities)	$ (69,495)	$ 207,890

Table 29 presents the State's debt service requirements and net swap payments as of June 30, 2012. Included in these amounts are the University's principal, variable interest, and interest rate net swap payments in the amounts of $882 million, $145 million, and $134 million, respectively.

Objective and Terms: As a means to lower the University's borrowing costs when compared against fixed-rate bonds at the time of issuance, the University entered into interest rate swap agreements in connection with certain of its variable-rate Medical Center Pooled Revenue Bonds. The University has determined that certain of its interest rate swaps are derivative instruments that meet the criteria for an effective hedge.

Fair Value: There is a risk that the fair value of a swap will become negative as a result of market conditions. The swaps have an estimated negative fair value of $69 million as of June 30, 2012. The fair value of the interest rate swaps is the estimated amount the University would have either received or paid if the swap agreements had been terminated on June 30, 2012. The fair value was estimated by financial institutions or independent advisors using available quoted market prices or discounted expected future net cash flows.

Table 37 summarizes the terms and fair value of the swap agreements.

Table 37

Schedule of Terms and Fair Values of Swap Agreements
June 30, 2012
(amounts in thousands)

Swap Termination Date	Effective Date	Outstanding Notional Amount at June 30, 2012	Fair Value at June 30, 2012	Fixed Rate Paid by University of California	Variable Rate Received by University of California	Counterparty Credit Ratings (Moody's, S&P's)
2032	2007	$ 83,115	$ (16,743)	3.5897 %	58% of 1-Month LIBOR* + 0.48%	A2, A
2030 through 2043	2008	124,775	(52,752)	4.6359	67% of 3-Month LIBOR* + 0.69%**	A2, A+
Total		**$ 207,890**	**$ (69,495)**			

* London Interbank Offered Rate (LIBOR)
** Weighted average spread

Interest Rate Risk: There is a risk that the value of the interest rate swaps will decline because of changing interest rates. The values of the interest rate swaps with longer maturities tend to be more sensitive to changing interest rates and, therefore, are more volatile than those with shorter maturities.

Basis Risk: The University is exposed to basis risk whenever the interest rates on the bonds are reset. The interest rate on the bonds is a tax-exempt interest rate, while the variable receipt rate on the interest rate swaps is taxable. However, there is no basis or tax risk related to the swap with the $125 million notional amount because the variable rate the University pays to the bond holders matches the variable-rate payments received from the swap counterparty and the interest rates are reset at the same intervals.

Termination Risk: The University is exposed to risk in the event of nonperformance by counterparties resulting in cancellation of the synthetic interest rate and returning the interest-rate payments to the variable interest rates on the bonds. In addition, depending on the agreement, certain swaps may be terminated if the counterparty's credit quality rating, as issued by Moody's or Standard & Poor's, falls below certain thresholds. At termination, the University may also owe a termination payment if there is a realized loss based on the fair value of the interest rate swap.

Credit Risk: The University could be exposed to credit risk if the interest-rate swap counterparties to the contracts are unable to meet the terms of the contracts. Contracts with positive fair values are exposed to credit risk. The University faces a maximum possible loss equivalent to the amount of the derivative's fair value, less any collateral held by the University provided by the counterparty. Contracts with negative fair values are not exposed to credit risk. There are no collateral requirements related to the interest-rate swap with the $83 million notional amount. Depending on the fair value related to the swap with the $125 million notional amount, the University may be entitled to receive collateral from the counterparty to the extent the positive fair value exceeds $35 million, or be obligated to provide collateral to the counterparty if the negative fair value of the swap exceeds $75 million or the cash and investments held by the medical centers fall below $250 million. As of June 30, 2012, collateral of $7 million was required.

D. Discretely Presented Component Unit - California Housing Finance Agency

The California Housing Finance Agency (CalHFA), a discretely presented component unit, holds interest-rate swaps that are derivative instruments. As of June 30, 2012, the cumulative gain or loss on the fair value of the effective swaps is reported as other noncurrent assets or as other noncurrent liabilities in the Statement of Net Assets. Alternatively, the gain or loss on the fair value of the ineffective swaps is reported as other general revenues in the Statement of Activities. CalHFA did not pay or receive any cash when the swap transactions were initiated except for in-substance assignments. Except as discussed under the following *Rollover Risk* section, CalHFA's swap agreements contain scheduled reductions to outstanding notional amounts that are expected to approximately follow scheduled or anticipated reductions in the associated bonds payable.

Table 38 summarizes the swap fair value activity in the statement of net assets and the statement of activities.

Table 38

Schedule of Swap Agreement Fair Value - California Housing Finance Agency
June 30, 2012
(amounts in thousands)

	Amount
Statement of net assets:	
Other noncurrent assets	$ 239,484
Other noncurrent liabilities	324,224
Statement of activities:	
Other general revenues (expenses)	(44,741)

Table 29 presents the State's debt service requirements and net swap payments as of June 30, 2012. Included in these amounts are CalHFA's principal, variable interest, and interest rate net swap payments in the amounts of $1.8 billion, $83 million, and $933 million, respectively.

Objective: CalHFA has entered into interest-rate swap agreements with various counterparties to protect itself against rising rates by providing synthetic fixed rates for a like amount of variable-rate bond obligations. The majority of CalHFA's interest-rate swap transactions are structured to pay a fixed rate of interest while receiving a variable rate of interest, with some exceptions. CalHFA has used multiple swap formulas. As of June 30, 2012, the formulas for the swap portfolio used the SIFMA, the one-month LIBOR, the three-month LIBOR, and the six-month LIBOR rates. The swap formula will continue to be monitored for its effectiveness in case CalHFA chooses to enter into any future interest-rate swaps. In addition, CalHFA entered into eight basis swaps as a means to change the variable-rate formula received from counterparties for the $215 million outstanding notional amount from 65% of LIBOR to varying floating rates.

Terms, Fair Value, and Credit Risk: CalHFA uses 12 counterparties for its interest-rate swap transactions. All of CalHFA's interest-rate swap agreements require CalHFA to post collateral if its general obligation credit ratings, as issued by Moody's and Standard & Poor's, fall below a certain level or if the fair value of the swaps breach a certain threshold. The collateral can be posted in several forms in the amount of the fair value of the interest-rate swaps. If CalHFA does not post collateral, the interest-rate swap can be terminated by the counterparty. As of June 30, 2012, CalHFA's swap portfolio has an aggregate negative fair value of $324 million, due to a decline in interest rates. Fair values are as reported by CalHFA's counterparties and are estimated using the zero-coupon method. As CalHFA's swap portfolio has an aggregate negative fair value, CalHFA has no net exposure to credit risk. CalHFA has 97 swap transactions, with outstanding notional amounts of $2.3 billion with effective dates from December 9, 1999, to November 1, 2009, and scheduled termination dates from August 1, 2012, to August 1, 2042. Standard & Poor's credit ratings for these counterparties range from A- to AAA; Moody's credit ratings range from Baa2 to Aa1.

Interest Rate Risk: CalHFA is exposed to interest rate risk on its fixed-payer swaps. As the LIBOR or the SIFMA swap index decreases, CalHFA's net payments on the swaps increase.

Basis Risk: CalHFA's swaps contain the risk that the floating-rate component of the swap will not match the floating rate of the underlying bonds. This risk arises because floating rates paid by swap counterparties are based on indices that consist of market-wide averages, while interest paid on CalHFA's variable-rate bonds is specific to individual bond issues. CalHFA's variable-rate tax-exempt bonds trade at a slight discount to the SIFMA index. For swaps associated with tax-exempt bonds for which CalHFA receives a variable-rate payment based on a percentage of LIBOR, CalHFA is exposed to basis risk if the relationship between SIFMA and LIBOR converges. As of June 30, 2012, the SIFMA rate was 0.18%, the one-month LIBOR was 0.25%, the three-month LIBOR was 0.46%, and the six-month LIBOR was 0.73%.

Termination Risk: Counterparties to CalHFA's interest-rate swaps have termination rights that require settlement payments by either CalHFA or the counterparty, based on the fair value of the swap at the date of termination.

Rollover Risk: CalHFA is exposed to rollover risk on interest-rate swaps that are hedges of debt that mature or may be terminated prior to the maturity of the hedged debt. When these swaps terminate, CalHFA will be re-exposed to the risks being hedged by the swaps.

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NOTE 18: INTERFUND BALANCES AND TRANSFERS

A. Interfund Balances

Table 39 represents short-term interfund receivables and payables resulting from the time lag between the dates on which goods and services are delivered and the dates on which payments between entities are made. In addition, interfund borrowing, mainly from nonmajor governmental funds and fiduciary funds, is used to meet temporary imbalances of receipts and disbursements in the General Fund.

Table 39 presents the amounts due from and due to other funds.

Table 39

Schedule of Due From Other Funds and Due To Other Funds
June 30, 2012
(amounts in thousands)

	Due To				
Due From	**General Fund**	**Transportation Fund**	**Environmental and Natural Resources Fund**	**Nonmajor Governmental Fund**	**Electric Power Fund**
Governmental funds					
General Fund	$ —	$ 309,150	$ 399,553	$ 779,884	$ —
Federal Fund	872,747	1,262,540	31,260	1,635,236	—
Transportation Fund	—	—	29,994	24,674	—
Environmental & Natural Resources Fund	—	—	—	189	—
Nonmajor governmental funds	298,529	25,333	8,674	23,343	—
Total governmental funds	**1,171,276**	**1,597,023**	**469,481**	**2,463,326**	**—**
Enterprise funds					
Water Resources Fund	—	—	—	—	—
Public Building Construction Fund	924	—	—	—	—
State Lottery Fund	106	—	—	283,715	—
Unemployment Programs Fund	28,042	—	—	—	—
Nonmajor enterprise funds	2,268	—	397	206	—
Total enterprise funds	**31,340**	**—**	**397**	**283,921**	**—**
Internal service funds	**27,104**	**17,829**	**13,009**	**22,236**	**4,000**
Total primary government	**$ 1,229,720**	**$ 1,614,852**	**$ 482,887**	**$ 2,769,483**	**$ 4,000**

	Due To								
Due From	**Water Resources Fund**	**Public Building Construction Fund**	**State Lottery Fund**	**Unemployment Programs Fund**	**California State University Fund**	**Nonmajor Enterprise Funds**	**Internal Service Funds**	**Fiduciary Funds**	**Total**
Governmental funds									
General Fund	$ —	$ —	$ —	$ —	$ 700,000	$ —	$ 64,038	$ 13,013,661	$ 15,266,286
Federal Fund	—	—	—	34,599	—	1,536	13,909	5,785,643	9,637,470
Transportation Fund	—	279	—	—	—	—	6,822	59,005	120,774
Environmental & Natural Resources Fund	—	—	—	—	—	—	12,906	—	13,095
Nonmajor governmental funds	—	—	—	—	2,650	51	29,780	3,251,023	3,639,383
Total governmental funds	**—**	**279**	**—**	**34,599**	**702,650**	**1,587**	**127,455**	**22,109,332**	**28,677,008**
Enterprise funds									
Water Resources Fund	—	—	—	—	—	—	34,024	—	34,024
Public Building Construction Fund	—	—	—	—	—	—	24,556	256	25,736
State Lottery Fund	—	—	—	—	—	—	—	—	283,821
Unemployment Programs Fund	—	—	—	—	—	—	664	—	28,706
Nonmajor enterprise funds	—	—	—	—	—	—	28	10	2,909
Total enterprise funds	**—**	**—**	**—**	**—**	**—**	**—**	**59,272**	**266**	**375,196**
Internal service funds	**1,288**	**28,340**	**476**	**2,286**	**—**	**3,241**	**4,661**	**3,679**	**128,149**
Total primary government	**$ 1,288**	**$ 28,619**	**$ 476**	**$ 36,885**	**$ 702,650**	**$ 4,828**	**$ 191,388**	**$ 22,113,277**	**$ 29,180,353**

Interfund receivables and payables are the result of interfund loans that are not expected to be repaid within one year. In addition to the temporary interfund cash-flow borrowing shown in Table 39, annual enacted budgets provide for long-term loans from many of the State's special funds—mainly the Transportation Fund and nonmajor governmental funds—to the General Fund. The $3.0 billion in Transportation Fund loans payable from the General Fund also includes $1.2 billion in deferred Proposition 42 transfers for traffic congestion relief and other direct loans from the Traffic Congestion Relief Program. Table 40 presents the interfund receivables and payables.

Table 40

Schedule of Interfund Receivables and Payables
June 30, 2012
(amounts in thousands)

Interfund Receivables	Interfund Payables: General Fund	Federal Trust Fund	Transportation Fund	Environmental and Natural Resources Funds	Nonmajor Governmental Funds
Governmental funds					
General Fund	$ —	$ 90,316	$ 2,963,068	$ 1,463,462	$ 3,229,438
Transportation Fund	—	—	—	—	—
Environmental and Natural Resources Fund	—	—	4,272	—	—
Nonmajor governmental funds	6,117	—	—	—	—
Total governmental funds	**6,117**	**90,316**	**2,967,340**	**1,463,462**	**3,229,438**
Internal service funds	**40,650**	**—**	**—**	**—**	**430**
Total primary government	**$ 46,767**	**$ 90,316**	**$ 2,967,340**	**$ 1,463,462**	**$ 3,229,868**

Interfund Receivables	Interfund Payables: Water Resources Fund	State Lottery Fund	Unemployment Programs Fund	California State University Fund	Nonmajor Enterprise Funds	Internal Service Funds	Fiduciary Funds	Total
Governmental funds								
General Fund	$ —	$ 93,928	$ 1,204,702	$ 121,176	$ 31,884	$ 287,632	$ 1,099,090	$ 10,584,696
Transportation Fund	—	—	—	—	—	2,745	—	2,745
Environmental and Natural Resources Fund	—	—	—	—	—	—	—	4,272
Nonmajor governmental funds	—	—	—	—	—	—	—	6,117
Total governmental funds	**—**	**93,928**	**1,204,702**	**121,176**	**31,884**	**290,377**	**1,099,090**	**10,597,830**
Internal service funds	**91,517**	**—**	**—**	**—**	**—**	**7,663**	**—**	**140,260**
Total primary government	**$ 91,517**	**$ 93,928**	**$ 1,204,702**	**$ 121,176**	**$ 31,884**	**$ 298,040**	**$ 1,099,090**	**$ 10,738,090**

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The amount shown as due from primary government and due to component units represent short-term receivables and payables between the primary government and component units resulting from the time lag between the dates on which goods and services are provided and received and the dates on which payments between entities are made.

Table 41 presents the amounts due from the primary government and due to component units.

Table 41

Schedule of Due From Primary Government and Due to Component Units
June 30, 2012
(amounts in thousands)

	Due To			
	Component Units			
Due From	**University of California**	**Public Employees' Benefits Fund**	**Nonmajor Component Units**	**Total**
Governmental funds				
General Fund	$ 1,140,354	$ 108,046	$ 544	$ 1,248,944
Transportation Fund	454	—	—	454
Environmental and Natural Resources Fund	2,000	—	—	2,000
Nonmajor governmental funds	48,264	—	32	48,296
Total governmental funds	**1,191,072**	**108,046**	**576**	**1,299,694**
Internal service funds	**—**	**364**	**120**	**484**
Total primary government	**$ 1,191,072**	**$ 108,410**	**$ 696**	**$ 1,300,178**

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B. Interfund Transfers

As required by law, transfers move money collected by one fund to another fund, which then disburses it. The General Fund and certain other funds transfer money to support various programs accounted for in other funds. The largest transfers from the General Fund were $2.0 billion to California State University (a major enterprise fund) and $890 million to nonmajor governmental funds for support of trial courts. The Federal Fund transferred $1.7 billion to nonmajor governmental funds for hospital services under the Medi-Cal program.

Table 42 presents interfund transfers of the primary government.

Table 42

Schedule of Interfund Transfers
June 30, 2012
(amounts in thousands)

	Transferred To							
Transferred From	General Fund	Transportation Fund	Environmental and Natural Resources Funds	Nonmajor Governmental Funds	Public Building Construction Fund	California State University Fund	Internal Service Funds	Total
Governmental funds								
General Fund	$ —	$ —	$ 853	$ 1,346,140	$ —	$ 1,976,502	$ —	$ 3,323,495
Federal Fund	750,655	—	200,596	1,748,805	—	—	—	2,700,056
Transportation Fund	78,702	—	13,412	797,175	—	—	—	889,289
Environmental and Natural Resources Fund	5,250	—	—	22,372	—	—	—	27,622
Nonmajor governmental funds	386,676	19	25,740	90,846	—	55,204	184	558,669
Total governmental funds	**1,221,283**	**19**	**240,601**	**4,005,338**	**—**	**2,031,706**	**184**	**7,499,131**
Nonmajor enterprise funds	**674**	—	—	**—**	**386**	**—**	**—**	**1,060**
Internal service funds	**14,153**	—	—	**41,576**	**—**	**—**	**—**	**55,729**
Total primary government	**$ 1,236,110**	**$ 19**	**$ 240,601**	**$ 4,046,914**	**$ 386**	**$ 2,031,706**	**$ 184**	**$ 7,555,920**

NOTE 19: FUND BALANCES, FUND DEFICITS, AND ENDOWMENTS

A. Fund Balances

The fund balance amounts for governmental funds have been reclassified in accordance with GASB Statement No. 54. As a result, amounts previously reported as reserved and unreserved are now reported as nonspendable, restricted, committed, assigned, or unassigned. See Note 1K for the new fund balance classifications as defined by GASB. For purposes of reporting in the State's CAFR, the following are the State's policies based on its interpretation of GASB Statement No. 54.

Committed fund balance: The highest level of decision-making authority within California statewide government is the California Legislature. The formal action required to establish, modify, or rescind a fund balance commitment is a statute that becomes law after a bill is passed. Commitments of fund balance, approved by State Legislative action, must be in place prior to the end of the State's fiscal year. The California State Legislature is made up of two houses: the Senate and the Assembly. Both houses must approve a bill. If both houses approve a bill, it then goes to the Governor. The Governor has three choices: the Governor can sign the bill into law, allow it to become law without his or her signature, or veto it. A governor's veto can be overridden by a two-thirds vote in each house.

Assigned fund balance: California does not have a formal policy to delegate authority to assign resources. However, fund balance can be classified as assigned when a purchase order creates an outstanding encumbrance amount unless the purchase order relates to restricted or committed resources. Furthermore, all resources in governmental funds, other than the General Fund, that are not restricted, committed, or nonspendable are classified as assigned.

Fund balance spending order: For the purpose of reporting fund balance in the CAFR under GASB Statement No. 54, the State considers resources to be spent in the following order when an expenditure is incurred for which these classifications are available: restricted, committed, assigned, and unassigned.

Table 43 presents the composition of the fund balance of the governmental funds.

Table 43

Schedule of Fund Balance by Function
June 30, 2012
(amounts in thousands)

	General Fund	Federal Fund	Transportation Fund	Environmental and Natural Resources Fund	Nonmajor Governmental Funds
Nonspendable					
Long-term interfund receivables	$ 537	$ —	$ —	$ —	$ —
Long-term loans receivable	7,077	—	—	—	—
Total nonspendable	**7,614**	—	—	—	—
Restricted					
General government	6,811	11,920	—	13,180	3,918,711
Education	—	296	4,691	—	1,239,031
Health and human services	66,515	257	—	1,035,228	1,463,741
Resources	—	10,777	—	6,334,284	76,171
State and consumer services	7,523	—	212,842	61,986	508,867
Business and transportation	—	138,069	6,465,470	42,305	3,249,353
Correctional programs	—	—	—	—	3,482
Total restricted	**80,849**	**161,319**	**6,683,003**	**7,486,983**	**10,459,356**
Committed					
General government	11,213	—	—	23,222	227,127
Education	1,050	—	—	—	39,414
Health and human services	7,337	—	2,049	—	182,645
Resources	—	—	17	504,549	914,086
State and consumer services	—	—	—	10,123	49,729
Business and transportation	—	—	46,006	—	71,485
Correctional programs	—	—	—	—	38,637
Total committed	**19,600**	—	**48,072**	**537,894**	**1,523,123**
Assigned -Business and transportation	—	—	—	—	3
Unassigned	**(23,069,351)**	—	**(4,485)**	**(59,823)**	**(38,869)**
Total fund balances (deficit)	**$ (22,961,288)**	**$ 161,319**	**$ 6,726,590**	**$ 7,965,054**	**$ 11,943,613**

B. Fund Deficits

Table 44 shows the funds that had deficits.

Table 44

Schedule of Fund Deficits
June 30, 2012
(amounts in thousands)

	Governmental Funds	Enterprise Funds	Internal Service Funds
General Fund	$ 22,961,288	$ —	$ —
Unemployment Programs Fund	—	5,150,488	—
Architecture Revolving Fund	—	—	26,066
Financial Information Systems Fund	—	—	27,692
Water Resources Revolving Fund	—	—	476
Service Revolving Fund	—	—	63,350
Total fund deficits	**$ 22,961,288**	**$ 5,150,488**	**$ 117,584**

C. Discretely Presented Component Unit Endowments and Gifts

The University of California, a discretely presented component unit, administers certain restricted nonexpendable, restricted expendable, and unrestricted endowments that are included in the related net asset categories of the government-wide and fund financial statements. As of June 30, 2012, the total value of restricted endowments and gifts was $11.1 billion and unrestricted endowments and gifts was $1.5 billion. The university's policy is to retain appreciation on investments with the endowment after an annual income distribution. The net appreciation available to meet future spending needs upon approval by the Board of Regents amounted to $1.5 billion at June 30, 2012. The portion of investment returns earned on endowments and distributed each year to support current operations is based on a rate approved by the Board of Regents. In addition, the California State University Auxiliary Organizations and the University of California Hastings College of the Law, nonmajor component units, have restricted nonexpendable and restricted expendable endowments of $825 million and $6 million, respectively.

NOTE 20: RISK MANAGEMENT

The primary government has elected, with a few exceptions, to be self-insured against loss or liability. The primary government generally does not maintain reserves. Losses are covered by appropriations from each fund responsible for payment in the year in which the payment occurs. The State is permissively self-insured and barring any extraordinary catastrophic event, the potential amount of loss faced by the State is not considered material in relation to the primary government's financial position. Generally, the exceptions are when a bond resolution or a contract requires the primary government to purchase commercial insurance for coverage against property loss or liability. There have been no significant reductions in insurance coverage from the prior year. In addition, no insurance settlement in the last three years has exceeded insurance coverage. All claim payments are on a "pay as you go" basis, with workers' compensation benefits for self-insured agencies initially being paid by the State Compensation Insurance Fund.

The discounted liability for unpaid self insurance claims of the primary government is estimated to be $3.3billion as of June 30, 2012. This estimate is based primarily on actuarial reviews of the State's workers' compensation program and includes indemnity payments to claimants, as well as all other costs of providing workers' compensation benefits, such as medical care and rehabilitation. The estimate also includes the liability for unpaid services fees, industrial disability leave benefits, and incurred-but-not-reported amounts. The estimated total liability of approximately $4.5 billion is discounted to $3.3 billion using a 3.5% interest rate. Of the total, $357 million is a current liability, of which $227 million is included in the General Fund, $118 million in the special revenue funds, $2 million in the internal service funds, and $10 million in enterprise funds. The remaining $2.9 billion is reported as other noncurrent liabilities in the government-wide Statement of Net Assets.

The University of California, a discretely presented component unit, is self-insured for medical malpractice, workers' compensation, employee health care, and general liability claims. These risks are subject to various claim and aggregate limits, with excess liability coverage provided by an independent insurer. Liabilities are recorded when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. These losses include an estimate for claims that have been incurred but not reported. The estimated liabilities are based on an independent actuarial determination of the anticipated future payments, discounted at rates ranging from 2.0% to 5.0%.

The California Public Employees' Retirement System (CalPERS) through its Public Employees' Benefits, a discretely presented component unit, administers three self-funded health care plans as risk pools available to all entities that contract for health insurance coverage under the Public Employees' Medical and Hospital Care Act. The plans retain all the risk of loss of allowable health claims. Claim liabilities are based on estimates of the ultimate costs of claims that have been reported but not settled and of claims that have been incurred but not reported. The estimated claims were calculated by a third-party administrator using a variety of actuarial and statistical techniques and adjusted for actual experience to produce current estimates that reflect recent settlements, claim frequency, and other economic and social factors. Adjustments to claims liabilities are charged or credited to expense in the periods in which they are made. The other major discretely presented component units do not have significant liabilities related to self-insurance.

Table 45 shows the changes in the self-insurance claims liability for the primary government and the discretely presented component units.

Table 45

Schedule of Changes in Self-Insurance Claims
Years Ended June 30
(amounts in thousands)

	Primary Government		Discretely Presented Component Units: University of California		Discretely Presented Component Units: Public Employee Benefits	
	2012	**2011**	**2012**	**2011**	**2012**	**2011**
Unpaid claims, beginning	$ 3,081,521	$ 2,762,761	$ 589,076	$ 585,955	$ 279,160	$ 229,062
Incurred claims	559,569	700,815	347,331	163,191	1,728,231	1,728,156
Claim payments	(388,346)	(382,055)	(337,231)	(160,070)	(1,784,147)	(1,678,058)
Unpaid claims, ending	**$ 3,252,744** *	**$ 3,081,521**	**$ 599,176**	**$ 589,076**	**$ 223,244**	**$ 279,160**

* Includes $49,972 for business-type activities.

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NOTE 21: NONMAJOR ENTERPRISE SEGMENT INFORMATION

A segment is an identifiable activity reported as or within an enterprise fund or another stand-alone entity for which debt is outstanding and a revenue stream has been pledged in support of that debt. In addition, to qualify as a segment, an activity must be subject to an external requirement to separately account for revenues, expenses, gains and losses, assets, and liabilities of the activity. All of the activities reported in the following condensed financial information meet these requirements.

Table 46 presents the Condensed Statement of Net Assets; the Condensed Statement of Revenues, Expenses, and Changes in Fund Net Assets; and the Condensed Statement of Cash Flows for nonmajor enterprise funds that meet the definition of a segment. The primary sources of revenues for these funds follow:

High Technology Education Fund: Rental payments on public buildings that are used for educational and research purposes related to specific fields of high technology.

State Water Pollution Control Revolving Fund: Interest charged on loans to communities for construction of water pollution control facilities and projects.

Housing Loan Fund: Interest payments from low-interest, long-term farm and home mortgage loan contracts to eligible veterans living in California.

Table 46

Nonmajor Enterprise Segments

(amounts in thousands)

Condensed Statement of Net Assets
June 30, 2012

	High Technology Education	State Water Pollution Control	Housing Loan	Total
Assets				
Due from other funds	$ 26	$ 1,799	$ 2,732	$ 4,557
Due from other governments	—	226,197	—	226,197
Other current assets	26,791	273,594	218,762	519,147
Other noncurrent assets	46,413	2,944,613	1,180,166	4,171,192
Total assets	**$ 73,230**	**$ 3,446,203**	**$ 1,401,660**	**$ 4,921,093**
Liabilities				
Due to other funds	$ —	$ 420	$ —	$ 420
Other current liabilities	18,330	24,844	45,764	88,938
Noncurrent liabilities	19,705	93,194	1,200,957	1,313,856
Total liabilities	**38,035**	**118,458**	**1,246,721**	**1,403,214**
Net assets				
Investment in capital assets, net of related debt	—	—	595	595
Restricted	35,195	270,733	154,344	460,272
Unrestricted	—	3,057,012	—	3,057,012
Total net assets	**35,195**	**3,327,745**	**154,939**	**3,517,879**
Total liabilities and net assets	**$ 73,230**	**$ 3,446,203**	**$ 1,401,660**	**$ 4,921,093**

Condensed Statement of Revenues, Expenses, and Changes in Fund Net Assets
Year Ended June 30, 2012

	High Technology Education	State Water Pollution Control	Housing Loan	Total
Operating revenues	$ 8,452	$ 56,437	$ 84,090	$ 148,979
Depreciation expense	—	—	(56)	(56)
Other operating expenses	(7,778)	(3,730)	(83,185)	(94,693)
Operating income (loss)	674	52,707	849	54,230
Nonoperating revenues (expenses)	—	(3,947)	(5,589)	(9,536)
Capital contributions and Transfers out	(386)	106,057	—	105,671
Change in net assets	288	154,817	(4,740)	150,365
Total net assets, July 1, 2011	**34,907**	**3,172,928**	**159,679**	**3,367,514**
Total net assets, June 30, 2012	**$ 35,195**	**$ 3,327,745**	**$ 154,939**	**$ 3,517,879**

Condensed Statement of Cash Flows
Year Ended June 30, 2012

	High Technology Education	State Water Pollution Control	Housing Loan	Total
Net cash provided by (used in):				
Operating activities	$ 22,014	$ (67,203)	$ 168,639	$ 123,450
Noncapital financing activities	(21,491)	(34,239)	(112,058)	(167,788)
Capital and related financing activities	—	108,641	(40)	108,601
Investing activities	—	1,165	7,285	8,450
Net decrease	**523**	**8,364**	**63,826**	**72,713**
Cash and pooled investments at July 1, 2011	**19,201**	**265,186**	**108,071**	**392,458**
Cash and pooled investments at June 30, 2012	**$ 19,724**	**$ 273,550**	**$ 171,897**	**$ 465,171**

NOTE 22: NO COMMITMENT DEBT

Certain debt of the nonmajor component units is issued to finance activities such as construction of new facilities, remodeling of existing facilities, and acquisition of equipment. This debt is secured solely by the credit of private and public entities and is administered by trustees independent of the State. As of June 30, 2012, these component units had $24.3 billion of debt outstanding, which is not debt of the State.

The conduit obligations outstanding for California Housing Finance Agency (CalHFA), a major component unit, amounted to $342 million, which is not debt of the State. CalHFA reported offsetting assets and liability related to these obligations. The net impact on net assets is zero.

NOTE 23: CONTINGENT LIABILITIES

A. Litigation

The primary government is a party to numerous legal proceedings, many of which are not unusual for governmental operations. To the extent they existed, the following were accrued as a liability in the government–wide financial statements: legal proceedings that were decided against the primary government before June 30, 2012; legal proceedings that were in progress as of June 30, 2012, and were settled or decided against the primary government as of March 15, 2013; and legal proceedings having a high probability of resulting in a decision against the primary government as of March 15, 2013, and for which amounts could be estimated. In the governmental fund financial statements, the portion of the liability that is expected to be paid within the next 12 months is recorded as a liability of the fund from which payment will be made. In the proprietary fund financial statements, the entire liability is recorded in the fund from which payment will be made.

In addition, the primary government is involved in certain other legal proceedings that, if decided against the primary government, may impair its revenue sources or require it to make significant expenditures. Because of the prospective nature of these proceedings, no provision for the potential liability has been made in the financial statements.

Following are the more significant lawsuits pending against the primary government.

The primary government is a defendant in two cases, *Bakersfield Mall, LLC v. Franchise Tax Board*, and *CA–Centerside II, LLC v. Franchise Tax Board*, both regarding the constitutionality of a fee imposed on limited liability companies (LLC). In *Bakersfield Mall, LLC v. Franchise Tax Board* the plaintiff contends that not all of its income is derived within the State and, therefore, not all income should be subject to the LLC fee. The second case, *CA–Centerside II, LLC v. Franchise Tax Board*, alleges that the LLC fee is unconstitutional regarding any activities, whether in-state or out-of-state.

In a previously settled case, *Northwest Energetic Services, LLC v. Franchise Tax Board*, the Court of Appeal found the fee unconstitutional only as applied to the plaintiff. The primary government has already begun to pay refunds to LLCs with the same facts as Northwest that have no income earned inside California. In another recently settled case, *Ventas Finance I, LLC v. Franchise Tax Board*, the Court of Appeal also ruled that the fee is unconstitutional as applied to the plaintiff, but it awarded only a partial refund because Ventas received income from both inside and outside of California. *Bakersfield Mall, LLC v. Franchise Tax Board* raised the same constitutional issues as Northwest and Ventas, but initially pertained to LLCs that conduct business solely within California. Bakersfield Mall, LLC later amended its complaint to reflect the fact that not all of its income is derived within the state, making it similar to the Ventas case. This plaintiff also intended to bring a class action suit for refund on behalf of all similarly situated LLCs and to declare the LLC fee unconstitutional. However, the Court of Appeal ruled that Bakersfield Mall, LLC did not follow mandatory class action claim

procedures. *CA–Centerside II, LLC v. Franchise Tax Board* raised the same constitutional issues as Northwest and Ventas, and alleges that the LLC fee is unconstitutional regarding any activities, whether in-state or out-of-state. Actual and expected future claims for refunds from LLCs are estimated to be as high as $1.2 billion. In addition, plaintiffs will, in all likelihood, seek a large award of attorneys' fees in these cases should they prevail.

The primary government is the defendant in both *California Redevelopment Association et al. v. Michael C. Genest et al.* and *County of Los Angeles, et al. v. Genest, et al*. These two cases challenge the constitutionality of Assembly Bill (AB)x4-26, which requires that redevelopment agencies remit a total of $1.7 billion in 2009-10 fiscal year and $350 million in 2010-11 fiscal year to a county Supplemental Education Revenue Augmentation Fund to be used by local schools. The State successfully defeated the claims in the Superior Court and in the Court of Appeal; however, the time for applicants to petition has not yet lapsed. If applicants petition and the Court of Appeal grants judgment for the plaintiff, the State would need to pay the challenged amount to the schools from the General Fund.

The primary government is the defendant in numerous cases regarding the Governor's executive orders directing the furlough, without pay, of state employees. The first executive order, issued on December 19, 2008, directed furloughs two days per month, effective February 1, 2009, through June 30, 2010. The second order, issued on July 1, 2009, required a third furlough day per month, effective through June 30, 2010. On July 28, 2010, the Governor issued a new executive order requiring furloughs for three days per month beginning August 1, 2010, until a new 2010-11 fiscal year budget was adopted and the Director of Finance determined that the State had sufficient cash flow to pay for essential services. Furloughs officially ended for all Service Employees International Union represented State employees in November 2010 and for all remaining bargaining units in April 2011. Most cases related to the furloughs have been settled or dismissed with only four cases still pending. Neither the outcome nor the estimated potential loss for the remaining cases can be determined at this time.

As a result of ABx1-26 all redevelopment agencies (RDAs) in California were dissolved February 1, 2012. A number of Southern California cities sued to invalidate ABx1-26, claiming the statute impairs contractual rights in violation of the state and federal constitutions and that it also violates Proposition 1A (2004), which requires a two-thirds vote to change the formula for distributing ad valorem property tax revenue. On January 27, 2012, a preliminary injunction to block the dissolutions was denied. That order has now been appealed by the City of Cerritos, in *City of Cerritos, et al. v. State, et al*. If the statute is found to be unconstitutional, the loss to the State will be approximately $1.1 billion for the 2011-12 fiscal year, plus all budget savings to date for the 2012-13 fiscal year. Based on the outcome of the preliminary injunction motions, the State is optimistic that the Court of Appeal will reject the challenge to the statute on the merits.

Other challenges to the provisions of ABx1-26 include *City of Irvine v. Matosantos*, *County of Orange v. Matosantos*, and *City of Emeryville, et al. v. Matosantos*. In all of these cases the plaintiffs, successors of the dissolved RDAs, are asserting that pledges and various agreements made by the RDAs are enforceable obligations under ABx1-26 and are not available for transfer to local taxing agencies. If the City of Irvine prevails, it will receive an additional $1.4 billion in property taxes. If the County of Orange prevails it will receive an additional $346 million in property taxes and the City of Emeryville will receive unspecified millions in property taxes. The Department of Finance defends its decision that these pledges and various agreements are not enforceable obligations and is optimistic that the State will prevail against the City of Irvine. The potential outcome of the other two cases is unclear. If the plaintiffs prevail in these cases, the possibility exists that similar cases against the State will be found in favor of the plaintiff, further reducing the amount of property tax revenue going to schools and other entities.

ABx1-26 is also being challenged in *Syncora Guarantee Inc. v. State of California*. Plaintiff bond insurers allege that ABx1-26 is an unconstitutional taking of property without compensation and impairment of contract under the state and federal constitutions. Plaintiff is seeking relief, including the return to successors of dissolved redevelopment agencies of property taxes redistributed to local agencies, to be held in trust until redevelopment bonds are paid. The Department of Finance is defending the constitutionality of ABx1-26 and is optimistic about the outcome. A hearing in Superior Court is scheduled for May, 2013. If the plaintiffs prevail, the state would forgo $1.1 billion in general fund relief for all subsequent fiscal years resulting from the redistribution of property taxes from redevelopment to local agencies.

There are many pending cases challenging AB 1484, which requires successor agencies to the former redevelopment agencies to remit certain property tax revenues owed under certain administrative reviews in 2012 and 2013 or face penalties. Examples include: *City of National, et al. v. Matosantos; City of Bellflower, et al. v. Matosantos, et al.; League of California Cities, et al. v. Matosantos, et al.; Morgan Hill Econ. Dev. Corp. v. Office of the State Controller; Inland Valley Development Agency v. Chiang; City of Union City v. Matosantos; and City of Orange, et al. v. State of California Department of Finance, et al.* Many of these cases challenge particular remittances owed by the plaintiff cities, but also make broad challenges to the constitutionality of AB 1484 under a range of theories. In two cases, *City of National, et al. v. Matosantos and City of Union City v. Matosantos* requests for temporary restraining orders have been denied and the remainder of cases are awaiting hearings. The State is defending the constitutionality of AB 1484, but at this time cannot assess the potential loss or outcome.

The California School Boards Association had filed a case against the primary government*, California School Boards Association, et al.v. State of California, et al.*, challenging the amount of funds appropriated for education in the 2011-12 fiscal year. However, the lawsuit was dismissed as moot due to the passage of Proposition 30 in November of 2012.

The University of California, the State Compensation Insurance Fund (State Fund), the California Housing Finance Agency (CalHFA), the Public Employees' Benefits Fund, and certain nonmajor discretely presented component units are contingently liable in connection with claims and contracts, including those currently in litigation, arising in the normal course of their activities. Although there are inherent uncertainties in any litigation, the management and the general counsel of the University of California, State Fund, CalHFA, the Public Employees' Benefit Fund, and certain nonmajor discretely presented component units are of the opinion that the outcome of such matters either will not have a material effect on the financial statements or cannot be estimated at this time.

B. Federal Audit Exceptions

The primary government receives substantial funding from the federal government in the form of grants and other federal assistance. The primary government, the University of California, CalHFA, and certain nonmajor discretely presented component units are entitled to these resources only if they comply with the terms and conditions of the grants and contracts and with the applicable federal laws and regulations; they may spend these resources only for eligible purposes. If audits disclose exceptions, the primary government, the University of California, CalHFA, and certain nonmajor discretely presented component units may incur a liability to the federal government.

NOTE 24: PENSION TRUSTS

Two retirement systems, the California Public Employees' Retirement System (CalPERS) and the California State Teachers' Retirement System (CalSTRS), which are fiduciary component units, are included in the pension and other employee benefit trust funds column of the fiduciary funds and similar component units' financial statements. The investments of the fiduciary component units are presented in Table 6 in Note 3, Deposits and Investments.

CalPERS administers four defined benefit retirement plans: the Public Employees' Retirement Fund, the Judges' Retirement Fund, the Judges' Retirement Fund II, and the Legislators' Retirement Fund. CalPERS also administers three defined contribution plans: the State Peace Officers' and Firefighters' Defined Contribution Plan Fund, the Public Agency Deferred Compensation Program, and the public employee Supplemental Contributions Program Fund. The predominance of both assets and liabilities reside in the Public Employees' Retirement Fund for which detail will be provided. CalPERS issues a publicly available financial report that includes financial statements and required supplementary information for these plans. This report may be obtained by writing to the California Public Employees' Retirement System, Fiscal Services Division, P.O. Box 942703, Sacramento, California 94229 or by visiting the CalPERS website at www.CalPERS.ca.gov.

CalPERS uses the accrual basis of accounting. Member contributions are recognized in the period in which the contributions are due. Employer contributions are recorded when due and the employer has made a formal commitment to provide the contributions. Benefits under the defined benefit plans and refunds are recognized when due and payable in accordance with the terms of each plan.

CalSTRS administers four defined benefit retirement plans within the State Teachers' Retirement Plan: the Defined Benefit Program (DB Program), the Defined Benefit Supplement Program, the Cash Balance Benefit Program, and the Replacement Benefit Program. CalSTRS also offers the Pension2 Program through a third-party administrator. The Pension2 Program is a tax-deferred defined contribution plan meeting the requirements of Internal Revenue Code Sections 403(b) and 457. The Teachers' Health Benefits Fund provides postemployment health benefits to retired members of the DB Program. CalSTRS issues a publicly available financial report that includes financial statements and required supplementary information for these plans. This report may be obtained from the California State Teachers' Retirement System, P.O. Box 15275, Sacramento, California 95851.

CalSTRS uses the accrual basis of accounting. Member contributions are recognized in the period in which the contributions are due. Employer and primary government contributions are recognized when due and when the employer or the primary government has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable, in accordance with the retirement and benefits programs.

A. Public Employees' Retirement Fund

1. Fund Information

Plan Description: CalPERS administers the Public Employees' Retirement Fund (PERF), which is an agent multiple-employer defined benefit retirement plan. Employers participating in the PERF include the primary government and certain discretely presented component units, 61 school employers, and 1,515 public agencies as of June 30, 2012.

The amount by which the actuarial accrued liability exceeded the actuarial value of assets in the PERF for the primary government and other participating agencies was $57.2 billion at June 30, 2011, as a result of the difference between the actuarial value of assets of $271.4 billion and the actuarial accrued liability of $328.6 billion. Contributions are either actuarially determined or determined by statute.

2. Employer's Information

Plan Description: The primary government and certain discretely presented component units contribute to the PERF. CalPERS acts as a common investment and administrative agent of the primary government and the other member agencies. The discretely presented component units' participation in the PERF is not a material portion of the program. The primary government employees served by the PERF include: first-tier and second-tier miscellaneous and industrial employees, California Highway Patrol employees, peace officers and firefighters, and other safety members. In the June 30, 2011 actuarial valuation, the payroll for primary government employees covered by the PERF for the 2009-10 fiscal year was $16.2 billion.

All employees in a covered class of employment who work half-time or more are eligible to participate in the PERF. The PERF provides benefits based on members' years of service, age, final compensation, and benefit formula. Vesting occurs after five years or after ten years for second-tier employees. The PERF provides death, disability, and survivor benefits. The benefit provisions are established by statute.

Funding Policy: Benefits are funded by contributions from members and the primary government and by earnings from investments. Member and primary government contributions are a percentage of applicable member compensation. Member rates are defined by law and based on the primary government's benefit formula. The primary government contribution rates are determined by periodic actuarial valuations or by statute.

Employees, with the exception of employees in the second-tier plans and the State's Alternate Retirement Program, contribute to the fund based on the required contribution rates. The contribution rates of active plan members are based on a percentage of salary over a monthly base compensation ranging from $0 to $863. Employees' required contributions vary from 5.0% to 11.0% of their salary over the base compensation amount.

All of the primary government employees served by the PERF are now covered by group term life insurance. Table 47 shows the required employer contribution rates for the primary government.

Table 47

Schedule of Required Employer Contribution Rates for the Primary Government by Member Category

Year Ended June 30, 2012

	Normal Cost	Unfunded Liability	Group Term Life Benefit	Total Rate
Miscellaneous members				
First tier	7.811 %	10.331 %	0.033 %	18.175 %
Second tier	6.661	10.331	0.033	17.025
Industrial (first and second tier)	10.541	4.232	0.161	14.934
California Highway Patrol	13.533	17.731	0.000	31.264
Peace officers and firefighters	16.110	11.215	0.090	27.415
Other safety members	12.354	3.969	0.105	16.428

For the year ended June 30, 2012, the annual pension cost (APC) and the amount of contributions made by the primary government were each $2.9 billion. The APC and the percentage of APC contributed for the last three years are shown in Table 48. Actuarial valuations of the PERF are performed annually. Information from the last valuation, which was performed as of June 30, 2011, is also shown in Table 48.

The Schedule of Funding Progress, presented as required supplementary information (RSI) following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial Methods and Assumptions: In the June 30, 2011, actuarial valuation, the individual entry age normal cost method was used. The actuarial assumptions included a 7.50% investment rate of return; projected salary increases of 3.20% to 19.70%, depending on duration of service; and postemployment benefit increases of 2.00% or 3.00%, compounded annually. The projected salary increases include a 2.75% inflation assumption. The unfunded actuarial accrued liability (UAAL) is being amortized as a level percentage of projected payroll on a closed basis.

B. Teachers' Retirement Fund

Plan Description: CalSTRS administers the Teachers' Retirement Fund, which is an employee benefit trust fund created to administer the State Teachers' Retirement Plan (STRP). The STRP is a defined benefit pension plan that provides for retirement, disability, and survivor benefits. Four programs comprise the STRP: the Defined Benefit (DB) Program, the Defined Benefit Supplement (DBS) Program, the Cash Balance (CB) Benefit Program, and the Replacement Benefit (RB) Program. The STRP is a cost-sharing, multiple-employer, defined-benefit retirement plan that provides pension benefits to teachers and certain other employees of the California public school system.

Membership in the DB Program is mandatory for all employees meeting the eligibility requirements. The DB Program provides benefits based on a member's age, final compensation, and years of service. Vesting occurs after five years. In addition, the retirement program provides benefits to members upon disability and to survivors upon the death of eligible members. The Teachers' Retirement Law establishes the benefits for the DB Program. At June 30, 2012, the DB Program had 1,712 contributing employers and as of June 30, 2011, had 429,600 active and 173,719 inactive program members and 253,041 benefit recipients. The primary government is a nonemployer contributor to the DB Program. The payroll for employees covered by the DB Program for the year ended June 30, 2012, was approximately $26.2 billion.

Membership in the DBS Program is automatic for all members of the DB Program. The DBS Program provides benefits based on the balance of member accounts. Vesting occurs immediately. The Teachers' Retirement Law establishes the benefits for the DBS Program. The primary government does not contribute to the DBS Program.

The CB Benefit Program is designed for employees of California public schools who are hired to perform creditable service for less than 50% of the full-time equivalent for the position. Employer participation in the CB Benefit Program is optional. However, if the employer elects to offer the CB Benefit Program, each eligible employee will automatically be covered by the CB Benefit Program unless the member elects to participate in the DB Program or an alternative plan provided by the employer within 60 days of hire. At June 30, 2012, the CB Benefit Program had 33 contributing school districts and 33,888 contributing participants.

The RB Program is a qualified excess benefits arrangement for DB Program members that is administered through a separate pension trust apart from the other three STRP programs and was established in accordance with Internal Revenue Code (IRC) Section 415(m). IRC Section 415(b) imposes a dollar limit on the annual retirement benefits an individual may receive from a qualified defined benefit pension plan. The program is funded as needed. Monthly contributions that would otherwise be credited to the DB program are instead credited to the RB Program to fund monthly program costs. Monthly employer contributions are received and paid to members in amounts equal to the benefits not paid as a result of IRC Section 415(b), subject to withholding for any applicable income or employment taxes. During the 2011-12 fiscal year, the RB Program had 272 participants.

Funding Policy: DB Program benefits are funded by contributions from members, employers, the primary government, and earnings from investments. Members and employers contribute a percentage of applicable member earnings. The Teachers' Retirement Law governs member rates, employer contribution rates, and primary government contributions.

The DB Program contribution rate of members is 8.00% of creditable compensation. The employer contribution rate is 8.25% of creditable compensation. In fiscal year 2011-12, the General Fund contribution was 2.017% of total creditable compensation of the fiscal year ending in the prior calendar year. Education Code section 22955(b) states that the General Fund will contribute additional quarterly payments at a contribution rate of 0.524% of creditable earnings of the fiscal year ending in the immediately preceding calendar year when there is an unfunded obligation or a normal cost deficit. The percentage is adjusted up to 0.25% per year to reflect the contributions required to fund the unfunded obligation or the normal cost deficit. However, the transfer may not exceed 1.505% of creditable compensation from the immediately preceding calendar year. The normal cost deficit is the difference between the normal cost rate and the member and employer contributions, which equal 16.00% of creditable compensation. Based on the most recent actuarial valuation, as of June 30, 2011, there is no normal cost deficit, but there was an unfunded obligation for benefits in place as of July 1, 1990. Therefore, the General Fund is required to contribute the additional quarterly payments at a contribution rate of 0.774% starting October 1, 2012.

The DBS Program member contribution rate for service in excess of one year within one fiscal year is 8.0% and the employer rate is 8.0%.

For the year ended June 30, 2012, the APC for the DB Program was approximately $6.2 billion; the employer and primary government contributions were approximately $2.2 billion and $689 million, respectively. The APC and the percentage of APC contributed for the last three years are shown in Table 48. Actuarial valuations of the DB Program are performed annually. Information from the last valuation is shown in Table 48.

C. CalSTRS Pension2 Program

Plan Description: CalSTRS administers the Pension2 Program, which is comprised of the IRC 403(b) and 457 programs, through a third-party administrator. The Pension2 is a defined contribution plan and is open to any employee who is eligible to participate. Contributions to the program are voluntary; however, the Internal Revenue Code does impose a maximum amount that can be contributed annually. At June 30, 2012, the Pension2 IRC 403(b) and 457 programs had 708 and 20 participating employers (school districts) and 6,922 and 317 plan members, respectively.

D. Teachers' Health Benefits Fund

Plan Description: CalSTRS administers the Teachers' Health Benefits Fund (THBF), which was established pursuant to Chapter 1032, Statutes of 2000 (SB 1435) to provide the Medicare Premium Payment Program for eligible retired members of the DB Program. At June 30, 2012, there were 7,730 benefit recipients.

Funding Policy: The THBF is funded as needed from the monthly DB Program statutory employer contribution that exceeds the amount needed to finance the liabilities of the DB Program based on the June 30, 2000, actuarial valuation of the DB Program.

Table 48

Actuarial Information – Pension Trusts – Public Employees' Retirement Fund and State Teachers' Retirement Defined Benefit Program Fund
Valuation Date As Indicated

	Public Employees' Retirement Fund	State Teachers' Retirement Defined Benefit Program Fund[1]
Last actuarial valuation	June 30, 2011	June 30, 2011
Actuarial cost method	Individual Entry Age Normal	Entry Age Normal
Amortization method	Level % of Payroll, Closed	Level % of Payroll, Open
Remaining amortization period	20 - 25 years	30 years
Asset valuation method	Smoothed Market Value	Expected Value, With 33% Adjustment to Market Value
Actuarial assumption		
Investment rate of return	7.50 %	7.50 %
Projected salary increase	3.20-19.70	3.75
Includes inflation at	2.75	3.00
Post-retirement benefit increases	2.00 - 3.00	2.00
Annual pension costs (in millions)		
Year ended 6/30/10	$ 2,878	$ 4,924
Year ended 6/30/11	3,277	5,985
Year ended 6/30/12	2,928	6,230
Percent contribution		
Year ended 6/30/10	100 %	55 %
Year ended 6/30/11	100	47
Year ended 6/30/12	100	46
Funding as of last valuation (in millions)		
Actuarial value – assets	$ 102,452	$ 143,930
Actuarial accrued liabilities (AAL) - entry age	129,648	207,770
Unfunded actuarial accrued liability (UAAL)	27,196	63,840
Covered payroll	16,212	26,592
Funded ratio	79.0 %	69.3 %
UAAL as percent of covered payroll	167.7 %	240.1 %

[1] The State is a non-employer contributor to the State Teachers' Retirement Defined Benefit Program Fund, a cost-sharing multiple-employer plan. The annual pension cost includes the amount related to both the State and the local government employers. According to the provisions of the Education Code, the State and local government employers contributed $689 million and $2.2 billion, respectively, for the year ending June 30, 2012. Based on the most recent actuarial valuation, dated June 30, 2011, current statutory contributions are sufficient to fund normal costs but are not expected to be sufficient to amortize the unfunded actuarial obligation. However, future estimates of the actuarial unfunded obligation may change due to market performance, legislative actions, and other experience that may differ from the actuarial assumptions.

NOTE 25: POSTEMPLOYMENT HEALTH CARE BENEFITS

A. State of California Other Postemployment Benefits Plan

Plan Description: The primary government and certain discretely presented component units provide health benefits (medical and prescription drug benefits) and dental benefits to annuitants of retirement systems through a substantive single-employer defined benefit plan to which the primary government contributes as an employer (State substantive plan). The primary government also offers life insurance, long-term care, and vision benefits to retirees; however, because these benefits are completely paid for by the retirees, the primary government has no liability. The discretely presented component units represent 3.2% of plan participation. The design of health and dental benefit plans can be amended by the California Public Employees' Retirement System (CalPERS) Board of Administration and the California Department of Human Resources (CalHR, formerly known as the Department of Personnel Administration), respectively. Employer and retiree contributions are governed by the primary government and can be amended by the primary government through the Legislature. The plan contributes to the California Employers' Retiree Benefit Trust Fund (CERBTF). The CERBTF is an agent multiple-employer irrevocable trust fund for the prefunding of health, dental, and other non-pension benefits. CalPERS reports on the CERBTF as part of its annual financial statements, which can be downloaded from the CalPERS website at www.CalPERS.ca.gov.

Fifty-eight county superior courts (trial courts) are included in the primary government. However, each trial court is a separate employer for GASB Statement 45 reporting purposes. Forty-nine trial courts have a single-employer defined benefit plan; these plans have separate biennial actuarial valuations. One trial court (San Diego) has a cost-sharing multiple-employer defined benefit plan. Eight trial courts (Alameda, Del Norte, Fresno, Mendocino, Modoc, San Benito, San Bernardino, and Stanislaus) have no plan. Forty-five plans are not accounted for in a trust fund and do not issue separate reports. Five trial courts (Lassen, Orange, San Diego, Sonoma, and Yolo) each contribute to one of four trust funds that issue separate reports.

To be eligible for these benefits, primary government first-tier plan annuitants must retire on or after age 50 with at least five years of service, and second-tier plan annuitants must retire on or after attaining age 55 with at least 10 years of service. In addition, annuitants must retire within 120 days of separation from employment to be eligible to receive these benefits. During the 2011-12 fiscal year, approximately 157,100 annuitants were enrolled to receive health benefits and approximately 130,700 annuitants were enrolled to receive dental benefits. As of July 1, 2011—the most recent actuarial valuation date—the trial courts had approximately 3,400 enrolled retirees and spouses.

Funding Policy: The contribution requirements of plan members and the State are established and may be amended by the Legislature. In accordance with the California Government Code, the State generally pays 100% of the health insurance cost for annuitants, plus 90% of the additional premium required for the enrollment of family members of annuitants. Although the California Government Code does not specify the State's contribution toward dental insurance costs, the State generally pays all or a portion of the dental insurance cost for annuitants, depending upon the completed years of credited state service at retirement and the dental coverage selected by the annuitant. The State funds the cost of providing health and dental insurance to annuitants primarily on a pay-as-you-go basis with a small amount of prefunding for California Highway Patrol members. The maximum 2012 monthly State contribution was $566 for one-party coverage, $1,074 for two-party coverage, and $1,382 for family coverage.

Each of the trial courts determines its respective retirees' benefits and benefit levels as well as the funding policy for its respective plan. Forty-four trial courts fund retirees' benefits on a pay-as-you-go basis. The 2011 monthly contribution rate for the trial courts with single-employer defined benefit plans—the latest year for which information is available—ranged from zero to $2,215, with the average being $690. Two trial courts (Lassen and Yolo) contribute at least the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. Orange contributes 3.5% of payroll, with at least the ARC contributed each year. Sonoma contributes 20% of the ARC to another postemployment benefit (OPEB) trust and pays a portion of ongoing benefit payments directly from trial court assets. Santa Clara contributes approximately 20% of the ARC to a Santa Clara County-established OPEB irrevocable trust, where the contribution is then pooled with County trust assets. San Diego, a cost-sharing multiple-employer defined benefit plan, had a contribution rate of 1.91% of annual covered pension payroll. For the year ended June 30, 2012, the State contributed $1.8 billion toward annuitants' health and dental benefits. Of this amount, the trial courts represent $31 million and certain discretely presented component units represent $52 million.

Annual OPEB Cost and Net OPEB Obligation: The State's annual OPEB cost (expense) is calculated based on the ARC. Table 49 presents the State's OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the year ended June 30, 2012, and the two preceding years, including trial courts.

Table 49

Schedule of Annual OPEB Cost, Percentage of Annual OPEB Cost Contributed, and Net OPEB Obligation
(amounts in thousands)

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2010	$ 4,078,493	34.31 %	$ 7,597,735
June 30, 2011	4,359,929	36.70	10,357,406
June 30, 2012	4,837,769	36.20	13,440,768

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Table 50 presents the components of the State's net OPEB obligation to the OPEB plan, including trial courts.

Table 50

Schedule of Net OPEB Obligation
June 30, 2012
(amounts in thousands)

	Amount
Annual required contribution	$ 4,816,565
Interest on net OPEB obligation	462,461
Adjustment to annual required contribution	(441,257)
Annual OPEB cost	**4,837,769**
Contributions made	(1,751,041)
Increase in net OPEB obligation	3,086,728
Net OPEB obligation — beginning of year	**10,354,040** [1]
Net OPEB obligation — end of year	**$13,440,768**

[1] The Trial Courts had a beginning balance restatement of $3.4 million due to changes in actuarial assumptions and reporting of contributions.

Funded Status and Funding Progress: As of June 30, 2012—the most recent actuarial valuation date for the State substantive plan—the actuarial accrued liability (AAL) for benefits was $63.85 billion, and the actuarial value of assets was $8 million, resulting in an unfunded actuarial accrued liability (UAAL) of $63.84 billion. The covered payroll (annual payroll of active employees covered by the plan) was $18.71 billion, and the ratio of the UAAL to the covered payroll was 341%.

For the trial courts, as of July 1, 2011—the most recent actuarial valuation date—the AAL for benefits was $1.39 billion and the actuarial value of assets was $16.8 million, resulting in an UAAL of $1.37 billion. The covered payroll was $937 million, and the ratio of the UAAL to covered payroll was 146%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about mortality and the healthcare cost trend. Amounts determined regarding the plan's funded status and the employer's annual required contributions are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions: Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used are consistent with a long-term perspective.

In the June 30, 2012 State substantive plan actuarial valuation, the individual entry age normal cost method was used. The actuarial assumptions included a 4.50% investment rate of return and an annual health care cost trend rate of actual increases for 2013 and 9.00% in 2014, initially, reduced to an ultimate rate of 4.50% after seven years. Both rates included a 3.00% annual inflation assumption. Annual wage inflation is assumed to be 3.25%. The UAAL is being amortized as a level percentage of projected payroll on an open basis over 30 years.

In the July 1, 2011 biennial actuarial valuations, the entry age normal cost method was used for 48 of the trial courts, while Shasta used the projected unit credit cost method. The actuarial assumptions included a 3.75% investment rate of return for 42 trial courts. There are seven other trial courts with investment rates of return ranging from 4.50% to 7.50%. The actuarial assumptions included an annual health care cost trend rate of 6.00% for most trial courts initially, reduced incrementally, to an ultimate trend rate of 4.50% after seven years. Annual inflation and payroll growth are assumed to be 3.00% and 3.25%, respectively, for most trial courts. The UAAL is amortized on an open basis over 30 years as a level percentage of payroll for 44 trial courts, and level dollar amount for one court (Shasta). Two other trial courts, Alpine and Orange, are amortizing using the level dollar amount over 26 years on a closed basis. The Yolo and Lassen trial courts amortize on the level percentage of payroll on a closed basis for 27 years and one year, respectively.

B. University of California Retiree Health Plan

Plan Description: The University of California (University), a discretely presented component unit, administers single-employer health and welfare plans to provide health and welfare benefits, primarily medical, dental, and vision, to eligible retirees and their families (retirees) of the University and its affiliates. The Regents have the authority to establish or amend the plans. Additional information can be obtained from the 2011-12 annual report of the University of California Health and Welfare Plans.

Membership in the University of California Retirement Plan is required to become eligible for retiree health benefits. As of July 1, 2011, the date of the latest actuarial valuation, 36,234 retirees are receiving such benefits.

Funding Policy: The contribution requirements of the University and eligible retirees are established and may be amended by the University. The contribution requirements are based upon projected pay-as-you-go financing. Contributions toward medical and dental benefits are shared between the University and the retiree. The University does not contribute toward the cost of other benefits available to retirees. Employees who meet specific requirements, including completed years of credited service, may continue their medical and dental benefits into retirement and continue to receive University contributions for those benefits. Active employees do not make any contributions toward the retiree health benefit plans. Retirees pay the excess, if any, of the premium over the applicable portion of the University's contribution.

Table 51 presents the University's OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the year ended June 30, 2012, and the two preceding years.

Table 51

Schedule of Annual OPEB Cost, Percentage of Annual OPEB Cost Contributed, and Net OPEB Obligation - University of California
(amounts in thousands)

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2010	$ 1,694,847	17.59 %	$ 3,773,804
June 30, 2011	1,812,905	18.16	5,257,422
June 30, 2012	1,552,263	23.32	6,447,678

Table 52 presents the components of the University's net OPEB obligation to the University of California Health and Welfare Plans.

Table 52

Schedule of Net OPEB Obligation - University of California
June 30, 2012
(amounts in thousands)

	Amount
Annual required contribution	$ 1,822,183
Interest on net OPEB obligation	289,158
Adjustment to annual required contribution	(559,078)
Annual OPEB cost	**1,552,263**
Contributions made	(362,007)
Increase in net OPEB obligation	1,190,256
Net OPEB obligation — beginning of year	**5,257,422**
Net OPEB obligation — end of year	**$ 6,447,678**

Funded Status and Funding Progress: For the University of California, as of July 1, 2011—the most recent actuarial valuation date—the AAL for benefits was $15.3 billion, and the actuarial value of assets was $78 million, resulting in a UAAL of $15.2 billion. The covered payroll (annual payroll of active employees covered by the plan) was $8.2 billion and the ratio of the UAAL to the covered payroll was 186%.

Actuarial Methods and Assumptions: For the University of California, in the July 1, 2011 actuarial valuation, the individual entry age normal cost method was used. The actuarial assumptions included a 5.5% investment rate of return, annual health care cost trend rates ranging from 7.5% to 12.5% for non-Medicare and 7.5% to 20.0% for Medicare initially, depending on the type of plan, reduced by increments to an ultimate rate of 5.0% over nine years, with a projected 3.0% inflation rate. The initial and future UAAL are being amortized as a flat dollar amount over 30 years on a closed basis.

NOTE 26: SUBSEQUENT EVENTS

The following information describes significant events that occurred subsequent to June 30, 2012, but prior to the date of the auditor's report.

A. Debt Issuances

In October and November 2012, the primary government issued $2.3 billion in general obligation bonds to finance or refinance capital facilities or other voter-approved costs for public purposes, including clean air; transportation; higher education facilities; highway safety, traffic reduction, air quality, and port security; and kindergarten-university public education facilities.

In August 2012, the Regents of the University of California, a discretely presented component unit, issued $1.0 billion in limited project revenue bonds to finance and refinance the acquisition, construction, improvement and renovation of certain athletic, parking, dining and student and faculty housing facilities of the University.

In August 2012, the California State University (CSU) issued $453 million in revenue bonds to finance or refinance the acquisition, construction, improvement and renovation of certain facilities of the CSU.

In October 2012, a Bond Anticipation Note (BAN) of approximately $14 million was authorized for the Fullerton Western State University College of Law Acquisition Project. In October 2012, approximately $13.5 million was issued, leaving an unused BAN of $535,000.

In September and October 2012, the State Public Works Board issued a combined total of $858 million in lease revenue bonds to finance and refinance the cost of design and/or construction of various projects for the benefit of the California State University, University of California, Department of Corrections, Department of Education, Department of Public Health and others.

In September 2012 and March 2013, the Department of Water Resources issued $473 million and $184 million respectively, in water system revenue bonds to refund certain outstanding bonds, retire outstanding water revenue commercial paper notes, fund a deposit to the Debt Service Reserve Account, fund interest on a portion of the bonds and pay the related issuance costs.

In December 2012, the California Infrastructure and Economic Development Bank issued $69 million in clean water state revolving fund refunding revenue bonds, together with amounts on deposit in certain funds, to refund the remaining outstanding clean water state revolving fund revenue bonds series 2002.

On September 1, 2012, the Department of Veteran Affairs voluntarily redeemed $38 million of home purchase revenue bonds.

B. Cash Management

In August 2012, the State issued $10.0 billion of Revenue Anticipation Notes to fund the State's cash management needs for the State's 2012-13 fiscal year and support the cash flow needs of the General Fund.

On July 4, 2012, the California Housing Finance Agency used $466 million of Residential Mortgage Revenue Bond proceeds to refund $466 million of variable rate demand bonds in the Home Mortgage Revenue Bonds indenture thus reducing the Agency's total variable rate debt and risks associated with these types of debt.

In November 2012 and pursuant to Chapter 630, Statutes of 2012, the CSU transferred $63 million from the continuing education program to the CSU Trust Fund in order to mitigate impacts to state-supported

instructional programs that would result from reductions in the CSU's General Fund appropriations or reduction in tuition fee revenues for support of the CSU. Consistent with the intent of the Legislature, the transfer authority is one-time in nature and effective only for the 2012-13 fiscal year.

C. Other

On September 12, 2012, the governor signed into law the Public Employees' Pension Reform Act of 2013. This legislation applies to all public employees and pension plans on or after January 1, 2013, with the exception of the University of California and charter cities and counties that are not members of a retirement system governed by state code. Key provisions of this legislation include changes in retirement benefits, member contributions, and retirement age. It eliminates the ability of public employees to purchase additional retirement service credit, establishes a cap on the annual salary that counts toward final compensation and pension benefits and prohibits a public employer from offering a replacement benefit plan for new members. This legislation does not have any impact on the current accrued liability, existing unfunded liability, or contribution rates for fiscal year 2011-12. However, it will impact future contribution rates as employers hire new employees, resulting in lower contribution requirements over time.

As of September 30, 2012, three California local governments had filed for financial relief under Chapter 9 of the Federal Bankruptcy Code. All three local governments provide retirement benefits, and one provides health benefits, through CalPERS. These local governments met their pension obligations and remitted annual contributions totaling $61 million, during fiscal year 2011-12, but have yet to file their proposed plans of adjustment. Therefore, the outcome and impact of the bankruptcy proceedings at these very early stages of the cases are unknown.

In November 2012, voters approved the following initiatives that will have a significant impact on the State's budget and finances:

- Proposition 30 – Increased personal income taxes on earnings over $250,000 beginning January 1, 2012, for seven years and sales and use taxes by ¼ cent beginning January 1, 2012, for four years. Proposition 30 guarantees that local governments will receive revenues to pay for state program responsibilities transferred to them in 2011. State tax revenues are anticipated to increase through 2018–19, averaging about $6 billion annually through 2016-17.

- Proposition 36 – Revised the law to reduce prison sentences served under the three strikes law by certain third-strike violators whose current offenses are non-serious, non-violent felonies. It also allows resentencing of certain third strike violators who are currently serving life sentences for specified non-serious, non-violent felonies. State correctional savings of approximately $70 million annually is anticipated, with even greater savings (up to $90 million annually) over the next couple of decades. These savings could vary significantly depending on the number of third strike violators resentenced by the court and the rate at which the Board of Parole Hearings would have released third strike violators in the future under past law.

- Proposition 39 – Requires multistate businesses to pay income taxes based on a percentage of their sales in California, and eliminates an option to choose a tax liability formula that provides favorable tax treatment for businesses with property and payroll outside California. State revenues are projected to increase by $1 billion annually. Proposition 39 dedicates half of the revenues, up to a maximum of $550 million, to clean/efficient energy projects for five years. Of the remaining revenues, a significant portion likely would be spent on schools.

The Proposition 30 increase in taxes on earnings over $250,000 was retroactive to January 1, 2012. The State Controller's Office believes the remainder of the propositions do not have a financial impact on the financial statements dated June 30, 2012.

In January 2013, Standard and Poor's raised its rating on the State's general obligation bonds to "A" from "A-" citing the State's improved fiscal condition and cash position, and the State's projections of a structurally balanced budget through at least the next several years.

California's high demand for unemployment insurance benefits required additional loans from the U.S. Department of Labor during the 2012-13 fiscal year. As of June 30, 2012, the State had $9.0 billion in outstanding loans from the U.S. Department of Labor that were used to cover deficits in the Unemployment Programs Fund. As of March 15, 2013, the State had an outstanding loan balance of $10.9 billion and it expects to request additional loans throughout 2013.

Required Supplementary Information

Schedule of Funding Progress

(amounts in millions)

Public Employees' Retirement Fund - Primary Government

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
June 30, 2009	$ 93,377	$ 116,827	$ 23,450	79.9 %	$ 16,333	143.6 %
June 30, 2010	97,346	121,446	24,100	80.2	16,281	148.0
June 30, 2011	102,452	129,648	27,196	79.0	16,212	167.7

State Teachers' Retirement Defined Benefit Program

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
June 30, 2009	$ 145,142	$ 185,683	$ 40,541	78.2 %	$ 27,327	148.4 %
June 30, 2010	140,291	196,315	56,024	71.5	26,275	213.2
June 30, 2011	143,930	207,770	63,840	69.3	26,592	240.1

Other Postemployment Benefit Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
State substantive plan						
June 30, 2010	$ 5	$ 59,911	$ 59,906	0.0 %	$ 17,540	341.5 %
June 30, 2011	7	62,144	62,137	0.0	18,010	345.0
June 30, 2012	8	63,845	63,837	0.0	18,710	341.2
Trial Courts [1]						
July 1, 2007	—	1,291	1,291	0.0 %	989	130.6 %
July 1, 2009	9	1,493	1,484	0.6	1,009	147.0
July 1, 2011	17	1,385	1,368	1.2	937	146.0

[1] The trial courts reporting is based on 49 individual biennial actuarial valuations as of July 1, 2011.

University of California Retiree Health Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
July 1, 2009	$ 77	$ 15,062	$ 14,985	0.5 %	$ 7,853	190.8 %
July 1, 2010	74	16,049	15,974	0.5	7,995	199.8
July 1, 2011	78	15,268	15,190	0.5	8,163	186.1

Infrastructure Assets Using the Modified Approach

Pursuant to Governmental Accounting Standards Board (GASB) Statement No. 34, the State uses the modified approach to report the cost of its infrastructure assets (state roadways and bridges). Under the modified approach, the State does not report depreciation expense for roads and bridges but capitalizes all costs that add to the capacity and efficiency of State-owned roads and bridges. All maintenance and preservation costs are expensed and not capitalized.

A. Infrastructure Asset Reporting Categories

The infrastructure assets reported in the State's financial statements for the fiscal year ending June 30, 2012, are in the following categories and amounts: state highway infrastructure (completed highway projects) totaling $62.5 billion, land purchased for highway projects totaling $12.5 billion, and infrastructure construction-in-progress (uncompleted highway projects) totaling $6.8 billion.

Donation and Relinquishment: Donation and relinquishment activity affects the inventory of statewide lane miles, land, and/or bridges as adjustments to the infrastructure assets and/or land balance in the State's financial statements. For the fiscal year ending June 30, 2012, donations are immaterial and relinquishments are $178 million of state highway infrastructure and $35 million of infrastructure land.

B. Condition Baselines and Assessments

1. Bridges

The State uses the Bridge Health Index (BHI)—a numerical rating scale from 0 to 100 that uses element-level inspection data—to determine the aggregate condition of its bridges. The inspection data is based on the American Association of State Highway Transportation Officials' "Commonly Recognized Elements for Bridge Inspection."

From a deterioration standpoint, the BHI represents the remaining asset value of the bridge. A new bridge that has 100% of its asset value has a BHI of 100. As a bridge deteriorates over time, it loses asset value, as represented by a decline in its BHI. When a deteriorated bridge is repaired, it will regain some (or all) of its asset value and its BHI will increase.

The State's established condition baseline and actual BHI for fiscal years 2009-10 through 2011-12 are shown in the following table:

Fiscal Year Ending June 30	Established BHI Baseline*	Actual BHI
2010	80.0	94.6
2011	80.0	94.3
2012	80.0	94.5

* The actual statewide Bridge Health Index (BHI) should not be lower than the minimum BHI established by the State.

The following table provides details on the State's actual BHI as of June 30, 2012:

BHI Description	Bridge Count	Percent	Network BHI
Excellent	6,789	52.45 %	99.9
Good	4,664	36.03	96.3
Acceptable	808	6.24	85.5
Fair	179	1.38	74.3
Poor	124	0.96	62.6
Does not carry traffic	380	2.94	93.4
Total	12,944	100.00 %	

2. Roadways

The State conducts a periodic pavement condition survey, which evaluates ride quality and structural integrity and identifies the number of distressed lane miles. The State classifies its roadways' pavement condition by the following descriptions:

1. Excellent/good condition – minor or no potholes or cracks
2. Fair condition – moderate potholes or cracks
3. Poor condition – significant or extensive potholes or cracks

Statewide lane miles are considered "distressed lane miles" if they are in either fair or poor condition. The actual distressed lane miles are compared to the established condition baseline to ensure that the baseline is not exceeded.

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The State's established condition baseline and actual distressed lane miles from the last three complete pavement-condition surveys are shown in the following table:

Condition Assessment Date [1]	Established Condition Baseline Distressed Lane Miles (maximum) [2]	Actual Distressed Lane Miles	Actual Distressed Lane Miles as Percent of Total Lane Miles
December 2006	18,000	13,845	27.9 %
March 2008	18,000	12,998	26.3
December 2011 [3]	18,000	12,333	24.9

[1] Condition assessment for the State's established condition baseline and actual distressed lane miles is being reported as of the *State of the Pavement* report publication date.

[2] The actual statewide distressed lane miles should not exceed the maximum distressed lane miles established by the State.

[3] The State's compliance with GASB 34, which requires a road condition assessment every three years, temporarily lapsed in March 2011. A survey was completed in December 2011 and the State will continue to use the modified approach for roadways.

The following table provides details on the State's actual distressed lane miles as of the last complete pavement- condition survey.

Pavement Condition	Lane Miles	Distressed Lane Miles
Excellent/Good	37,185	—
Fair	2,486	2,486
Poor	9,847	9,847
Total	49,518	12,333

C. Budgeted and Actual Preservation Costs

The estimated budgeted preservation costs represent the preservation projects approved by the California Transportation Commission and the State's scheduled preservation work for each fiscal year. The actual preservation costs represent the cumulative cost to date for the projects approved and work scheduled in each fiscal year. Prior to the 2008-09 fiscal year, the State excluded the annual expenditures for one of its bridges from preservation costs. Beginning in the 2008-09 fiscal year, the State included the expenditures for the bridge in both budgeted and actual preservation costs and restated the costs for previous years.

The State's budgeted and actual preservation cost information for the most recent and four previous fiscal years is shown in the following table:

Fiscal Year Ending June 30	Estimated Budgeted Preservation Costs (in millions)	Actual Preservation Costs (in millions)
2008	$ 2,956	$1,932
2009	2,910	1,739
2010	2,162	694
2011	2,802	1,244
2012	2,886	624

Budgetary Comparison Schedule

General Fund and Major Special Revenue Funds

Year Ended June 30, 2012
(amounts in thousands)

	General				Federal				Transportation			
	Budgeted Amounts		Actual	Variance With	Budgeted Amounts		Actual	Variance With	Budgeted Amounts		Actual	Variance With
	Original	Final	Amounts	Final Budget	Original	Final	Amounts	Final Budget	Original	Final	Amounts	Final Budget
REVENUES												
Corporation tax	$ 9,479,000	$ 8,208,000	$ 7,962,603	$ (245,397)	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Intergovernmental	—	—	—	—	51,628,178	51,628,178	51,628,178	—	—	—	—	—
Cigarette and tobacco taxes	93,000	93,000	95,038	2,038	—	—	—	—	—	—	—	—
Inheritance, estate, and gift taxes	—	—	—	—	—	—	—	—	—	—	—	—
Insurance gross premiums tax	2,042,000	2,148,000	2,164,708	16,708	—	—	—	—	—	—	—	—
Vehicle license fees	103,389	93,389	89,753	(3,636)	—	—	—	—	—	—	—	—
Motor vehicle fuel tax	—	—	—	—	—	—	—	—	5,495,264	5,608,934	5,544,529	(64,405)
Personal income tax	54,186,000	52,958,000	53,789,711	831,711	—	—	—	—	—	—	—	—
Retail sales and use taxes	18,777,000	18,921,000	18,652,283	(268,717)	—	—	—	—	—	—	—	—
Other major taxes and licenses	323,910	331,910	347,391	15,481	—	—	—	—	3,271,552	3,797,111	3,686,374	(110,737)
Other revenues	2,188,630	2,270,701	2,467,020	196,319	126	126	126	—	424,846	399,899	363,120	(36,779)
Total revenues	**87,192,929**	**85,024,000**	**85,568,507**	**544,507**	**51,628,304**	**51,628,304**	**51,628,304**	**—**	**9,191,662**	**9,805,944**	**9,594,023**	**(211,921)**
EXPENDITURES												
State and consumer services	623,031	618,683	599,779	18,904	34,924	34,924	34,924	—	115,637	113,261	105,500	7,761
Business and transportation	113,207	111,768	111,738	30	4,836,783	4,836,783	4,836,783	—	9,109,818	8,776,738	7,137,709	1,639,029
Resources	1,057,467	1,090,467	1,023,600	66,867	400,360	400,360	400,360	—	265,036	262,469	262,224	245
Health and human services	29,086,512	28,573,356	26,814,225	1,759,131	35,111,385	35,111,385	35,111,385	—	3,283	3,317	2,857	460
Correctional programs	8,458,618	7,956,758	7,863,879	92,879	11,876	11,876	11,876	—	—	—	—	—
Education	43,624,891	41,816,463	41,812,567	3,896	6,520,580	6,520,580	6,520,580	—	2,530	2,527	2,501	26
General government:			166,525									
Tax relief	442,185	442,185	434,385	7,800	—	—	—	—	6,084	6,084	5,895	189
Debt service	4,936,471	4,936,471	4,857,178	79,293	—	—	—	—	1,648	1,737	795	942
Other general government	4,790,186	4,280,251	4,113,726	166,525	1,328,861	1,328,861	1,328,861	—	3,647,869	3,648,439	3,642,649	5,790
Total expenditures	**93,132,568**	**89,826,402**	**87,797,602**	**2,195,325**	**48,244,769**	**48,244,769**	**48,244,769**	**—**	**13,151,905**	**12,814,572**	**11,160,130**	**1,654,442**
OTHER FINANCING SOURCES (USES)												
Transfers from other funds	—	—	1,998,586	—	—	—	16,674,058	—	—	—	11,706,610	—
Transfers to other funds	—	—	(551,328)	—	—	—	(20,013,388)	—	—	—	(12,322,592)	—
Other additions and deductions	—	—	1,333,253	—	—	—	(44,079)	—	—	—	871,538	—
Total other financing sources (uses)	**—**	**—**	**2,780,511**	**—**	**—**	**—**	**(3,383,409)**	**—**	**—**	**—**	**255,556**	**—**
Excess (deficiency) of revenues and other sources over (under) expenditures and other uses	—	—	717,941	—	—	—	126	—	—	—	(1,310,551)	—
Fund balances, July 1, 2011	**—**	**—**	**(2,326,541) ***	**—**	**—**	**—**	**10,611**	**—**	**—**	**—**	**27,001,380**	**—**
Fund balances, June 30, 2012	**$ —**	**$ —**	**$ (1,608,600)**	**$ —**	**$ —**	**$ —**	**$ 10,737**	**$ —**	**$ —**	**$ —**	**$ 25,690,829**	**$ —**

(continued)

*Restated

Budgetary Comparison Schedule (continued)

General Fund and Major Special Revenue Funds

Year Ended June 30, 2012
(amounts in thousands)

	Environmental and Natural Resources			
	Budgeted Amounts		Actual	Variance With
	Original	Final	Amounts	Final Budget
REVENUES				
Corporation tax	$ —	$ —	$ —	$ —
Intergovernmental	—	—	—	—
Cigarette and tobacco taxes	—	—	—	—
Inheritance, estate, and gift taxes	—	—	—	—
Insurance gross premiums tax	—	—	—	—
Vehicle license fees	—	—	—	—
Motor vehicle fuel tax	—	—	—	—
Personal income tax	—	—	—	—
Retail sales and use taxes	—	—	—	—
Other major taxes and licenses	156,064	156,064	156,064	—
Other revenues	2,869,788	2,869,788	2,869,788	—
Total revenues	**3,025,852**	**3,025,852**	**3,025,852**	**—**
EXPENDITURES				
State and consumer services	86,703	86,211	79,930	6,281
Business and transportation	1,847	1,847	1,843	4
Resources	4,534,360	4,435,672	3,888,844	546,828
Health and human services	183,868	183,267	109,963	73,304
Correctional programs	—	—	—	—
Education	3,672	3,672	2,449	1,223
General government:	—	—	—	—
Tax relief	—	—	—	—
Debt service	19	19	19	—
Other general government	39,229	26,682	19,240	7,442
Total expenditures	**4,849,698**	**4,737,370**	**4,102,288**	**635,082**
OTHER FINANCING SOURCES (USES)				
Transfers from other funds	—	—	698,169	—
Transfers to other funds	—	—	(319,582)	—
Other additions and deductions	—	—	23,340	—
Total other financing sources (uses)	**—**	**—**	**401,927**	**—**
Excess (deficiency) of revenues and other sources over (under) expenditures and other uses	—	—	(674,509)	—
Fund balances, July 1, 2011	**—**	**—**	**13,153,061**	**—**
Fund balances, June 30, 2012	**$ —**	**$ —**	**$ 12,478,552**	**$ —**

(concluded)

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Reconciliation of Budgetary Basis Fund Balances of the General Fund and the Major Special Revenue Funds to GAAP Basis Fund Balances

June 30, 2012
(amounts in thousands)

		Special Revenue Funds		
	General	Federal	Transportation	Environmental and Natural Resources
Budgetary fund balance reclassified into GAAP statement fund structure	**$ (1,608,600)**	**$ 10,737**	**$ 25,690,829**	**$ 12,478,552**
Basis difference:				
Interfund receivables	46,767	—	2,607,700	606,777
Loans receivable	148,319	164,948	—	968,812
Interfund payables	(5,208,565)	—	(2,745)	(4,272)
Escheat property	(1,000,310)	—	—	—
Bonds authorized but unissued	—	—	(20,338,110)	(5,942,075)
Tax revenues	(187,800)	—	—	—
GASB 54 classification changes	69,832	2,433	—	—
Other	9,149	—	(1,079,057)	(136,331)
Timing difference:				
Liabilities budgeted in subsequent years	(15,230,080)	(16,799)	(152,027)	(6,409)
GAAP fund balance (deficit), June 30, 2012	**$ (22,961,288)**	**$ 161,319**	**$ 6,726,590**	**$ 7,965,054**

Notes to the Required Supplementary Information

Budgetary Comparison Schedule

The State annually reports its financial condition based on a Generally Accepted Accounting Principles (GAAP) basis and on the State's budgetary provisions (budgetary basis). The Budgetary Comparison Schedule, General Fund and Major Special Revenue Funds reports the original budget, the final budget, the actual expenditures, and the variance between the final budget and the actual expenditures, using the budgetary basis of accounting.

On the budgetary basis, individual appropriations are charged as expenditures when commitments for goods and services are incurred. However, for financial reporting purposes, the State reports expenditures based on the year in which goods and services are received. The Budgetary Comparison Schedule includes all of the current-year expenditures for the General Fund and major special revenue funds as well as related appropriations that are typically legislatively authorized annually, continually, or by project. On a budgetary basis, adjustments for encumbrances are budgeted under other general government, while the encumbrances relate to all programs' expenditures.

The Budgetary Comparison Schedule is not presented in this document at the legal level of budgetary control because such a presentation would be extremely lengthy and cumbersome. The State of California prepares a separate report, the Comprehensive Annual Financial Report Supplement, which includes statements that demonstrate compliance with the legal level of budgetary control in accordance with Government Accounting Standards Board's (GASB) Codification of Governmental Accounting and Financial Reporting Standards, Section 2400.121. This report includes the comparison of the annual appropriated budget with expenditures at the legal level of control. A copy of the Comprehensive Annual Financial Report Supplement is available upon request from the State Controller's Office, Division of Accounting and Reporting, P.O. Box 942850, Sacramento, California 94250-5872.

Reconciliation of Budgetary With GAAP Basis

The reconciliation of budgetary basis fund balances of the General Fund and the major special revenue funds to GAAP basis fund balances are presented on the previous page and are explained in the following paragraphs.

The beginning fund balance for the General Fund, on the budgetary basis is restated for prior-year revenue adjustments and prior-year expenditure adjustments. A prior-year revenue adjustment occurs when the actual amount received in the current year differs from the amount of revenue accrued in the prior year. A prior-year expenditure adjustment results when the actual amount paid in the current year differs from the prior-year accrual for appropriations for which the ability to encumber funds has lapsed in previous periods. The beginning fund balance on a GAAP basis is not affected by these adjustments.

Basis Difference

Interfund Receivables and Loans Receivable: Loans made to other funds or to other governments are normally recorded as either expenditures or transfers on a budgetary basis. However, in accordance with GAAP, these loans are recorded as assets. The adjustments related to interfund receivables caused a $47 million increase to the fund balance in the General Fund, a $2.6 billion increase to the fund balance in the Transportation Fund, and a $607 million increase to the fund balance in Environmental and Natural Resources Fund. The adjustments related to loans receivable caused increases of $148 million in the General Fund, $165 million in the Federal Fund, and $969 million in Environmental and Natural Resources Fund.

Interfund Payables: Loans received from other funds or from other governments are normally recorded as either revenues or transfers on a budgetary basis. However, in accordance with GAAP, these loans are recorded as liabilities. The adjustments related to interfund payables caused a $5.2 billion decrease to the budgetary fund balance in the General Fund, $3 million decrease to the Transportation Fund, and $4 million decrease to the Environmental and Natural Resources Fund.

Escheat Property: A liability for the estimated amount of escheat property expected to ultimately be reclaimed and paid is not reported on a budgetary basis. The liability is required to be reported on a GAAP basis. This adjustment caused a $1.0 billion decrease to the General Fund balance.

Bonds Authorized but Unissued: In the year that general obligation bonds are authorized by the voters, the full amount authorized is recognized as revenue on a budgetary basis. In accordance with GAAP, only the amount of bonds issued each year is reported as an other financing source. The adjustments related to bonds authorized but unissued caused a $20.3 billion decrease to the fund balance in the Transportation Fund and $5.9 billion decrease in Environmental and Natural Resources Fund.

Tax Revenues: Estimated tax payments are accrued on a budgetary basis pursuant to Chapter 751, Statutes of 2008. However, in accordance with GAAP, tax payments are accrued based on the portion of estimated net final payments related to the fiscal year. This adjustment caused a fund balance decrease of $188 million in the General Fund.

GASB Statement No. 54 Classification Changes: The fund balance amounts for governmental funds have been reclassified in accordance with GASB Statement No. 54. Additional information on GASB 54 can be found in Note 1, Summary of Significant Accounting Policies, Section K. These reclassifications caused fund balance increases of $70 million in the General Fund and $2 million in the Federal Fund. The $70 million of fund balance is not considered part of the General Fund for any budgetary purposes or for the *Budgetary/Legal Basis Annual Report.*

Other: Certain other adjustments and reclassifications are necessary in order to present the financial statements in accordance with GAAP. The other adjustments caused a fund balance increase of $9 million in the General Fund, a fund balance decrease of $1.1 billion in the Transportation Fund, and a $136 million decrease in Environmental and Natural Resources Fund.

Timing Difference

Liabilities Budgeted in Subsequent Years: On a budgetary basis, the primary government does not accrue liabilities for which there is no existing appropriation or no currently available appropriation. The adjustments made to account for these liabilities in accordance with GAAP caused fund balance decreases of $15.2 billion in the General Fund, $17 million in the Federal Fund, $152 million in the Transportation Fund, and $6 million in the Environmental and Natural Resources Fund. The large decrease in the General Fund primarily consists of $8.4 billion for deferred apportionment payments to K-12 schools and community colleges, $2.1 billion in tax overpayments, $1.7 billion for medical assistance, $793 million for June 2012 payroll that was deferred to July 2012, and $425 million for pension contributions.

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Combining Financial Statements and Schedules - Nonmajor and Other Funds

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Nonmajor Governmental Funds

Nonmajor governmental funds account for the State's activities that do not meet the criteria of a major governmental fund. Following are brief descriptions of nonmajor governmental funds.

Special revenue funds account for the proceeds of specific revenue sources, other than debt service or capital projects, that are restricted or committed to expenditures for specific purposes.

The **Business and Professions Regulatory and Licensing Fund** accounts for fees and other revenues charged for regulating and licensing specific industries, professions, and vocations.

The **Financing for Local Governments and the Public Fund** accounts for taxes, fees, bond proceeds, and other revenues that are used to finance the construction and maintenance of parks, jails, and other public and local government programs.

The **Cigarette and Tobacco Tax Fund** accounts for a surtax on cigarette and tobacco products that is used for various health programs.

The **Local Revenue and Public Safety Fund** accounts for vehicle license fees and a 1.5625% state sales tax that is dedicated to local governments for realigning costs from the State to local governments and a 0.5% state sales tax that is dedicated to local governments to fund public safety programs.

The **Health Care Related Programs Fund** accounts for fees, taxes, bond proceeds, transfers from the Federal Trust Fund and other state funds, and other revenues that are used for the Medi-Cal and Healthy Families programs, medical research, and other health and human services programs.

The **Trial Courts Fund** accounts for the various fees collected by the courts, maintenance of effort payments from the counties, transfers in from the General Fund, and trial court operating costs.

The **Golden State Tobacco Securitization Corporation Fund** is a blended component unit that accounts for the receipt of Tobacco Revenue Settlements pledged for the payment of debt service.

The **Other Special Revenue Programs Fund** accounts for all other proceeds of revenue sources, other than debt service or capital projects, that are restricted or committed to expenditures for specific purposes.

(continued)

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Debt service funds account for and report financial resources that are restricted, committed, or assigned for the payment of principal and interest on general long-term obligations.

The **Economic Recovery Bond Sinking Fund** accounts for General Fund transfers, proceeds from sale of surplus property, and the 0.25% sales and use tax revenue collected for the payment of principal, interest, and other related costs of the Economic Recovery Bonds.

The **Transportation Debt Service Fund** accounts for Transportation Fund transfers used for the payment of principal and interest related to various transportation related general obligation bonds.

Capital projects funds account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

The **Prison Construction Fund** accounts for bond proceeds that are used to construct state prisons.

The **Higher Education Construction Fund** accounts for bond proceeds used to construct state colleges and universities.

The **Natural Resources Acquisition and Enhancement Fund** accounts for bond proceeds and various revenues that are used to acquire or improve state parks, beaches, and other recreational areas.

The **Hospital Construction Fund** accounts for bond proceeds that are used to construct hospitals.

The **Local Government Construction Fund** accounts for bond proceeds that are used to construct schools, libraries, and other major capital facilities for local governments.

Building authorities are blended component units that are created by joint-powers agreements between local governments and the State or other local governments for the purpose of financing the construction of state buildings. The funds account for bond proceeds used to finance and construct state buildings and parking facilities.

The *East Bay Building Authority* is an agreement with the City of Oakland.

The *Los Angeles Building Authority* is an agreement with the Community Redevelopment Agency of the City of Los Angeles.

The *San Francisco Building Authority* is an agreement with the Community Redevelopment Agency of the City and County of San Francisco.

The *Oakland Building Authority* is an agreement with the Community Redevelopment Agency of the City of Oakland.

The *Riverside Building Authority* is an agreement with the County of Riverside and the Riverside County Redevelopment Agency.

The *San Bernardino Building Authority* is an agreement with the City of San Bernardino and the Redevelopment Agency of the City of San Bernardino.

Other capital projects funds account for transactions related to resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

Combining Balance Sheet

Nonmajor Governmental Funds

June 30, 2012
(amounts in thousands)

	Special Revenue			Special Revenue					
	Business and Professions Regulatory and Licensing	Financing for Local Governments and the Public	Cigarette and Tobacco Tax	Local Revenue and Public Safety	Health Care Related Programs	Trial Courts	Golden State Tobacco Securitization Corporation	Other Special Revenue Programs	Total Nonmajor Special Revenue
ASSETS									
Cash and pooled investments	$ 637,466	$ 1,426,763	$ 247,795	$ 1,726,337	$ 223,633	$ 1,198,021	$ 389,691	$ 708,757	$ 6,558,463
Investments	—	—	—	—	—	156,865	245,697	—	402,562
Receivables (net)	47,189	287,907	63,504	3,125	1,774,089	315,877	4	139,546	2,631,241
Due from other funds	197,090	242,290	324	18,709	1,633,016	141,006	—	503,467	2,735,902
Due from other governments	15,216	3,891	—	5	—	34,114	—	30,568	83,794
Interfund receivables	613,321	501,623	127,603	360,717	89,988	511,123	—	1,010,395	3,214,770
Loans receivable	179,335	2,160,372	—	—	21,813	—	—	15,461	2,376,981
Other assets	443	—	—	—	—	19,194	—	—	19,637
Total assets	**$ 1,690,060**	**$ 4,622,846**	**$ 439,226**	**$ 2,108,893**	**$ 3,742,539**	**$ 2,376,200**	**$ 635,392**	**$ 2,408,194**	$ 18,023,350
LIABILITIES									
Accounts payable	$ 39,595	$ 99,530	$ 95,350	$ 150	$ 269,856	$ 218,001	$ 4	$ 222,827	$ 945,313
Due to other funds	26,234	195,638	16,117	229,488	3,132,848	15,711	—	17,836	3,633,872
Due to component units	—	—	41,673	—	—	—	—	6,591	48,264
Due to other governments	13,029	409,918	113,522	1,841,854	17,633	273,227	—	278,851	2,948,034
Interfund payables	1,283	—	—	—	—	—	—	4,834	6,117
Deposits	430	—	—	—	—	471,777	—	17,586	489,793
Advance collections	34,698	2,781	—	—	8,452	16,348	—	31,973	94,252
Interest payable	—	—	—	—	—	—	25,361	—	25,361
General obligation bonds payable	—	—	—	—	—	—	—	—	—
Other liabilities	35,248	442	7	—	—	89,584	—	13,542	138,823
Total liabilities	**150,517**	**708,309**	**266,669**	**2,071,492**	**3,428,789**	**1,084,648**	**25,365**	**594,040**	8,329,829
FUND BALANCES									
Restricted	824,420	3,510,490	172,557	9,234	270,496	1,266,873	610,027	1,557,487	8,221,584
Committed	715,123	439,563	—	28,167	43,254	24,679	—	260,017	1,510,803
Assigned	—	3	—	—	—	—	—	—	3
Unassigned	—	(35,519)	—	—	—	—	—	(3,350)	(38,869)
Total fund balances	**1,539,543**	**3,914,537**	**172,557**	**37,401**	**313,750**	**1,291,552**	**610,027**	**1,814,154**	9,693,521
Total liabilities and fund balances	**$ 1,690,060**	**$ 4,622,846**	**$ 439,226**	**$ 2,108,893**	**$ 3,742,539**	**$ 2,376,200**	**$ 635,392**	**$ 2,408,194**	$ 18,023,350

(continued)

Combining Balance Sheet (continued)

Nonmajor Governmental Funds

June 30, 2012
(amounts in thousands)

	Debt Service			Capital Projects						
									Building Authorities	
	Economic Recovery Bond Sinking	Transportation Debt Service	Total Nonmajor Debt Service	Prison Construction	Higher Education Construction	Natural Resources Acquisition and Enhancement	Hospital Construction	Local Government Construction	East Bay	Los Angeles
ASSETS										
Cash and pooled investments	$ 1,281,458	$ —	$ 1,281,458	$ 2,784	$ 214,761	$ 29,379	$ 330,199	$ 897,798	$ 20,835	$ 10,492
Investments	—	—	—	—	—	—	—	—	—	—
Receivables (net)	—	—	—	—	1	5	—	—	—	—
Due from other funds	955	—	955	3	110	12,729	305	16	1,807	2,656
Due from other governments	—	—	—	—	—	—	—	7,654	—	—
Interfund receivables	—	—	—	—	—	14,198	—	—	—	—
Loans receivable	—	—	—	—	—	—	—	—	—	—
Other assets	—	—	—	—	—	—	—	—	—	—
Total assets	**$ 1,282,413**	**$ —**	**$ 1,282,413**	**$ 2,787**	**$ 214,872**	**$ 56,311**	**$ 330,504**	**$ 905,468**	**$ 22,642**	**$ 13,148**
LIABILITIES										
Accounts payable	$ 1,920	$ —	$ 1,920	$ —	$ 3,071	$ 65	$ —	$ 1,947	$ —	$ —
Due to other funds	404	—	404	—	2,804	3	—	2,223	—	—
Due to component units	—	—	—	—	—	—	32	—	—	—
Due to other governments	—	—	—	—	—	7	—	4,508	—	—
Interfund payables	—	—	—	—	—	—	—	—	—	—
Deposits	—	—	—	—	—	—	—	—	—	—
Advance collections	—	—	—	—	—	52	—	—	—	—
Interest payable	144,498	—	144,498	—	—	—	—	—	562	411
General obligation bonds payable	476,470	—	476,470	—	—	—	—	—	—	—
Other liabilities	—	—	—	—	—	—	—	—	—	—
Total liabilities	**623,292**	**—**	**623,292**	**—**	**5,875**	**127**	**32**	**8,678**	**562**	**411**
FUND BALANCES										
Restricted	659,121	—	659,121	2,787	208,997	46,468	330,472	896,790	22,080	12,737
Committed	—	—	—	—	—	9,716	—	—	—	—
Assigned	—	—	—	—	—	—	—	—	—	—
Unassigned	—	—	—	—	—	—	—	—	—	—
Total fund balances	**659,121**	**—**	**659,121**	**2,787**	**208,997**	**56,184**	**330,472**	**896,790**	**22,080**	**12,737**
Total liabilities and fund balances	**$ 1,282,413**	**$ —**	**$ 1,282,413**	**$ 2,787**	**$ 214,872**	**$ 56,311**	**$ 330,504**	**$ 905,468**	**$ 22,642**	**$ 13,148**

(continued)

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Combining Balance Sheet (continued)

Nonmajor Governmental Funds

June 30, 2012
(amounts in thousands)

	Capital Projects						
	Building Authorities			Building Authorities			
	San Francisco	Oakland	Riverside	San Bernardino	Other Capital Projects	Total Nonmajor Capital Projects	Total Nonmajor Governmental
ASSETS							
Cash and pooled investments	$ 16,845	$ 7,165	$ 970	$ 9,411	$ 14,092	$ 1,554,731	$ 9,394,652
Investments	—	—	—	—	—	—	402,562
Receivables (net)	—	—	—	—	—	6	2,631,247
Due from other funds	10,291	2,392	389	1,916	12	32,626	2,769,483
Due from other governments	—	—	—	—	—	7,654	91,448
Interfund receivables	—	—	—	—	900	15,098	3,229,868
Loans receivable	—	—	—	—	—	—	2,376,981
Other assets	—	—	—	—	—	—	19,637
Total assets	**$ 27,136**	**$ 9,557**	**$ 1,359**	**$ 11,327**	**$ 15,004**	**$ 1,610,115**	**$ 20,915,878**
LIABILITIES							
Accounts payable	$ —	$ —	$ —	$ —	$ 1,154	$ 6,237	$ 953,470
Due to other funds	—	—	—	—	77	5,107	3,639,383
Due to component units	—	—	—	—	—	32	48,296
Due to other governments	—	—	—	—	—	4,515	2,952,549
Interfund payables	—	—	—	—	—	—	6,117
Deposits	—	—	—	—	—	—	489,793
Advance collections	—	—	—	—	—	52	94,304
Interest payable	833	1,134	107	154	—	3,201	173,060
General obligation bonds payable	—	—	—	—	—	—	476,470
Other liabilities	—	—	—	—	—	—	138,823
Total liabilities	**833**	**1,134**	**107**	**154**	**1,231**	**19,144**	**8,972,265**
FUND BALANCES							
Restricted	26,303	8,423	1,252	11,173	11,169	1,578,651	10,459,356
Committed	—	—	—	—	2,604	12,320	1,523,123
Assigned	—	—	—	—	—	—	3
Unassigned	—	—	—	—	—	—	(38,869)
Total fund balances	**26,303**	**8,423**	**1,252**	**11,173**	**13,773**	**1,590,971**	**11,943,613**
Total liabilities and fund balances	**$ 27,136**	**$ 9,557**	**$ 1,359**	**$ 11,327**	**$ 15,004**	**$ 1,610,115**	**$ 20,915,878**

(concluded)

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances

Nonmajor Governmental Funds

Year Ended June 30, 2012
(amounts in thousands)

	Special Revenue			Special Revenue					
	Business and Professions Regulatory and Licensing	Financing for Local Governments and the Public	Cigarette and Tobacco Tax	Local Revenue and Public Safety	Health Care Related Programs	Trial Courts	Golden State Tobacco Securitization Corporation	Other Special Revenue Programs	Total Nonmajor Special Revenue
REVENUES									
Personal income taxes	$ —	$ 845,561	$ —	$ —	$ —	$ —	$ —	$ —	$ 845,561
Sales and use taxes	—	—	—	10,685,737	—	—	—	—	10,685,737
Insurance taxes	—	—	—	—	251,379	—	—	—	251,379
Other taxes	92,750	750,757	792,486	—	—	—	—	224	1,636,217
Intergovernmental	—	637,239	—	—	—	828,366	—	—	1,465,605
Licenses and permits	340,286	18,786	—	1,952,797	—	—	—	10,501	2,322,370
Charges for services	30,919	503	720	—	113	49,787	—	156,968	239,010
Fees	887,973	606	12	—	1,930,767	352,977	—	749,561	3,921,896
Penalties	5,313	12,018	—	—	11,718	481,938	—	298,246	809,233
Investment and interest	21,807	7,844	1,430	475	2,821	5,418	977	13,317	54,089
Other	15,027	27,683	28	—	378,655	179,516	367,876	290,001	1,258,786
Total revenues	**1,394,075**	**2,300,997**	**794,676**	**12,639,009**	**2,575,453**	**1,898,002**	**368,853**	**1,518,818**	**23,489,883**
EXPENDITURES									
Current:									
General government	497,673	509,553	16,773	3,787,619	283	2,755,238	—	897,300	8,464,439
Education	20,022	11,958	90,941	—	233,191	—	—	16,628	372,740
Health and human services	231,567	2,846,582	669,608	7,103,275	4,926,798	—	—	583,658	16,361,488
Resources	48,186	84,479	12,910	—	—	—	—	36,424	181,999
State and consumer services	254,553	—	—	—	—	257	—	155,139	409,949
Business and transportation	228,874	380,191	—	—	—	—	—	10,953	620,018
Correctional programs	—	88,582	—	1,776,233	—	—	—	20,779	1,885,594
Capital outlay	—	15	—	—	—	—	—	—	15
Debt service:									
Bond and commercial paper retirement	—	—	—	—	—	—	65,765	—	65,765
Interest and fiscal charges	—	172	—	—	50	—	312,815	—	313,037
Total expenditures	**1,280,875**	**3,921,532**	**790,232**	**12,667,127**	**5,160,322**	**2,755,495**	**378,580**	**1,720,881**	**28,675,044**
Excess (deficiency) of revenues over (under) expenditures	113,200	(1,620,535)	4,444	(28,118)	(2,584,869)	(857,493)	(9,727)	(202,063)	(5,185,161)
OTHER FINANCING SOURCES (USES)									
General obligation bonds and commercial paper issued	—	38,805	—	—	50,825	—	—	—	89,630
Refunding debt issued	—	2,874	—	—	—	—	—	—	2,874
Payment to refund long-term debt	—	(3,077)	—	—	—	—	—	—	(3,077)
Premium on bonds issued	—	375	—	—	50	—	—	—	425
Transfers in	10,109	251,330	—	21,000	1,932,892	937,046	—	34,119	3,186,496
Transfers out	(5,215)	(28,746)	(85,187)	(1)	(32,700)	(310,275)	—	(28,625)	(490,749)
Total other financing sources (uses)	**4,894**	**261,561**	**(85,187)**	**20,999**	**1,951,067**	**626,771**	**—**	**5,494**	**2,785,599**
Net change in fund balances	118,094	(1,358,974)	(80,743)	(7,119)	(633,802)	(230,722)	(9,727)	(196,569)	(2,399,562)
Fund balances, July 1, 2011	**1,421,449 ***	**5,273,511**	**253,300**	**44,520**	**947,552**	**1,522,274**	**619,754**	**2,010,723 ***	**12,093,083**
Fund balances, June 30, 2012	**$ 1,539,543**	**$ 3,914,537**	**$ 172,557**	**$ 37,401**	**$ 313,750**	**$ 1,291,552**	**$ 610,027**	**$ 1,814,154**	**$ 9,693,521**

(continued)

*Restated

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances (continued)

Nonmajor Governmental Funds

Year Ended June 30, 2012
(amounts in thousands)

	Debt Service			Capital Projects						
									Building Authorities	
	Economic Recovery Bond Sinking	Transportation Debt Service	Total Nonmajor Debt Service	Prison Construction	Higher Education Construction	Natural Resources Acquisition and Enhancement	Hospital Construction	Local Government Construction	East Bay	Los Angeles
REVENUES										
Personal income taxes	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Sales and use taxes	1,312,362	—	1,312,362	—	—	—	—	—	—	—
Insurance taxes	—	—	—	—	—	—	—	—	—	—
Other taxes	—	—	—	—	—	—	—	—	—	—
Intergovernmental	—	—	—	—	—	—	—	—	—	—
Licenses and permits	—	—	—	—	—	—	—	—	—	—
Charges for services	—	—	—	—	—	—	—	—	—	—
Fees	—	—	—	—	—	—	—	—	—	—
Penalties	—	—	—	—	—	—	—	—	—	—
Investment and interest	2,811	—	2,811	13	1,797	20	1,368	4,850	79	39
Other	41,789	—	41,789	—	—	1,270	—	—	—	—
Total revenues	**1,356,962**	**—**	1,356,962	**13**	**1,797**	**1,290**	**1,368**	**4,850**	**79**	**39**
EXPENDITURES										
Current:										
General government	22,714	—	22,714	—	—	—	82,304	—	—	—
Education	—	—	—	—	—	—	—	1,281,865	—	—
Health and human services	—	—	—	—	—	—	—	—	—	—
Resources	—	—	—	—	—	25,722	—	—	—	—
State and consumer services	—	—	—	—	—	—	—	—	—	—
Business and transportation	—	—	—	—	—	—	—	—	—	—
Correctional programs	—	—	—	—	—	—	—	—	—	—
Capital outlay	—	—	—	165	399,265	24,102	406	16,481	68	—
Debt service:										
Bond and commercial paper retirement	873,631	272,722	1,146,353	—	312,690	—	—	702,768	7,743	3,005
Interest and fiscal charges	286,208	482,431	768,639	65	38,107	—	—	57,216	1,768	1,692
Total expenditures	**1,182,553**	**755,153**	1,937,706	**230**	**750,062**	**49,824**	**82,710**	**2,058,330**	**9,579**	**4,697**
Excess (deficiency) of revenues over (under) expenditures	174,409	(755,153)	(580,744)	(217)	(748,265)	(48,534)	(81,342)	(2,053,480)	(9,500)	(4,658)
OTHER FINANCING SOURCES (USES)										
General obligation bonds and commercial paper issued	—	—	—	—	370,156	—	—	2,338,189	—	—
Refunding debt issued	—	—	—	1,108	578,272	—	—	2,384,112	—	—
Payment to refund long-term debt	—	—	—	(1,200)	(606,078)	—	—	(2,518,120)	—	—
Premium on bonds issued	—	—	—	158	65,914	—	—	258,832	—	—
Transfers in	—	755,153	755,153	—	—	48,134	—	—	9,176	4,791
Transfers out	—	—	—	—	(55,204)	—	—	(12,716)	—	—
Total other financing sources (uses)	**—**	**755,153**	755,153	**66**	**353,060**	**48,134**	**—**	**2,450,297**	**9,176**	**4,791**
Net change in fund balances	174,409	—	174,409	(151)	(395,205)	(400)	(81,342)	396,817	(324)	133
Fund balances, July 1, 2011	**484,712**	**—**	484,712	**2,938**	**604,202**	**56,584**	**411,814**	**499,973**	**22,404**	**12,604**
Fund balances, June 30, 2012	**$ 659,121**	**$ —**	$ 659,121	**$ 2,787**	**$ 208,997**	**$ 56,184**	**$ 330,472**	**$ 896,790**	**$ 22,080**	**$ 12,737**

(continued)

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances (continued)

Nonmajor Governmental Funds

Year Ended June 30, 2012
(amounts in thousands)

	Capital Projects						
	Building Authorities			Building Authorities			
	San Francisco	Oakland	Riverside	San Bernardino	Other Capital Projects	Total Nonmajor Capital Projects	Total Nonmajor Governmental
REVENUES							
Personal income taxes	$ —	$ —	$ —	$ —	$ —	$ —	$ 845,561
Sales and use taxes	—	—	—	—	—	—	11,998,099
Insurance taxes	—	—	—	—	—	—	251,379
Other taxes	—	—	—	—	—	—	1,636,217
Intergovernmental	—	—	—	—	—	—	1,465,605
Licenses and permits	—	—	—	—	—	—	2,322,370
Charges for services	—	—	—	—	—	—	239,010
Fees	—	—	—	—	—	—	3,921,896
Penalties	—	—	—	—	—	—	809,233
Investment and interest	69	28	4	36	41	8,344	65,244
Other	—	423	—	—	210	1,903	1,302,478
Total revenues	**69**	**451**	**4**	**36**	**251**	**10,247**	**24,857,092**
EXPENDITURES							
Current:							
General government	—	—	—	—	43	82,347	8,569,500
Education	—	—	—	—	—	1,281,865	1,654,605
Health and human services	—	—	—	—	—	—	16,361,488
Resources	—	—	—	—	—	25,722	207,721
State and consumer services	—	—	—	—	—	—	409,949
Business and transportation	—	—	—	—	—	—	620,018
Correctional programs	—	—	—	—	—	—	1,885,594
Capital outlay	2,585	—	—	—	3,023	446,095	446,110
Debt service:							
Bond and commercial paper retirement	17,550	4,765	535	2,875	—	1,051,931	2,264,049
Interest and fiscal charges	11,862	5,168	450	1,949	2,185	120,462	1,202,138
Total expenditures	**31,997**	**9,933**	**985**	**4,824**	**5,251**	**3,008,422**	**33,621,172**
Excess (deficiency) of revenues over (under) expenditures	(31,928)	(9,482)	(981)	(4,788)	(5,000)	(2,998,175)	(8,764,080)
OTHER FINANCING SOURCES (USES)							
General obligation bonds and commercial paper issued	—	—	—	—	2,645	2,710,990	2,800,620
Refunding debt issued	—	—	—	—	30,133	2,993,625	2,996,499
Payment to refund long-term debt	—	—	—	—	(31,765)	(3,157,163)	(3,160,240)
Premium on bonds issued	—	—	—	—	3,815	328,719	329,144
Transfers in	27,684	9,572	988	4,920	—	105,265	4,046,914
Transfers out	—	—	—	—	—	(67,920)	(558,669)
Total other financing sources (uses)	**27,684**	**9,572**	**988**	**4,920**	**4,828**	**2,913,516**	**6,454,268**
Net change in fund balances	(4,244)	90	7	132	(172)	(84,659)	(2,309,812)
Fund balances, July 1, 2011	**30,547**	**8,333**	**1,245**	**11,041**	**13,945**	**1,675,630**	**14,253,425**
Fund balances, June 30, 2012	**$ 26,303**	**$ 8,423**	**$ 1,252**	**$ 11,173**	**$ 13,773**	**$ 1,590,971**	**$ 11,943,613**

(concluded)

Budgetary Comparison Schedule

Budgetary Basis

Nonmajor Governmental Funds

Year Ended June 30, 2012
(amounts in thousands)

	Budget Amounts	Actual Amounts	Variance With Final Budget
REVENUES			
Cigarette and tobacco taxes	$ 518,965	$ 518,965	$ —
Vehicle license fees	1,486,802	1,486,802	—
Personal income tax	845,561	845,561	—
Retail sales and use taxes	11,998,166	11,998,166	—
Other major taxes and licenses	265,643	265,643	—
Other revenues	6,623,733	6,623,733	—
Total revenues	**21,738,870**	**21,738,870**	**—**
EXPENDITURES			
State and consumer services	481,710	432,089	49,621
Business and transportation	1,334,764	1,259,708	75,056
Resources	262,161	217,517	44,644
Health and human services	17,431,714	17,041,398	390,316
Correctional programs	7,790	6,500	1,290
Education	1,920,328	1,894,261	26,067
General government	7,567,610	7,070,158	497,452
Total expenditures	**29,006,077**	**27,921,631**	**1,084,446**
OTHER FINANCING SOURCES (USES)			
Transfers from other funds	—	18,778,681	—
Transfers to other funds	—	(18,660,919)	—
Other additions and deductions	—	247,165	—
Total other financing sources (uses)	**—**	**364,927**	**—**
Excess (deficiency) of revenues and other sources over (under) expenditures and other uses	—	(5,817,834)	—
Fund balances, July 1, 2011 (restated)	**—**	**19,261,404**	**—**
Fund balances, June 30, 2012	**$ —**	**$ 13,443,570**	**$ —**

Internal Service Funds

Internal service funds account for state activities that provide goods and services to other state departments or agencies on a cost reimbursement basis. Following are brief descriptions of the internal service funds.

The **Architecture Revolving Fund** accounts for charges for the costs of architectural services, construction, and improvements.

The **Service Revolving Fund** accounts for charges for printing and procurement services rendered by the Department of General Services for state departments and other public entities.

The **Prison Industries Fund** accounts for charges for goods produced by inmates in state prisons that are sold to state departments and other governmental entities.

The **Office of Systems Integration Fund** accounts for project management service costs associated with automation projects for the Department of Social Services and the Employment Development Department.

The **Technology Services Revolving Fund** accounts for charges for technology services performed for various state, federal, and local government entities by the California Technology Agency.

The **Water Resources Revolving Fund** accounts for charges for administrative services related to water delivery provided by the Department of Water Resources to federal, state, and local government agencies.

The **Financial Information System Fund** accounts for charges for the development and subsequent use of the State's new financial information system.

Other internal service program funds account for all other goods and services provided to other agencies, departments, or governments on a cost-reimbursement basis.

Combining Statement of Net Assets

Internal Service Funds

June 30, 2012
(amounts in thousands)

	Architecture Revolving	Service Revolving	Prison Industries	Office of Systems Integration	Technology Services Revolving	Water Resources Revolving	Financial Information System	Other Internal Service Programs	Total
ASSETS									
Current assets:									
Cash and pooled investments	$ 205,979	$ 72,122	$ 113,034	$ 16,201	$ 36,000	$ 26,625	$ 5,421	$ 257,853	$ 733,235
Receivables (net)	1,254	36,305	770	7,329	21,671	61,392	5	347	129,073
Due from other funds	26,003	17,928	3,263	8,418	39,037	52,177	3,165	41,397	191,388
Due from other governments	372	7,675	231	—	734	—	—	72	9,084
Prepaid items	27	80,265	260	279	1,534	15,926	2,362	2,172	102,825
Inventories	—	22,965	41,694	—	25,899	806	—	—	91,364
Total current assets	233,635	237,260	159,252	32,227	124,875	156,926	10,953	301,841	1,256,969
Noncurrent assets:									
Interfund receivables	25,525	35,643	57,836	8,468	17,806	—	2,861	149,901	298,040
Capital assets:									
Land	—	—	—	—	—	—	—	2,312	2,312
Buildings and other depreciable property	437	139,812	147,501	—	275,062	28,042	709	10,228	601,791
Intangible assets – amortizable	—	7,668	3,644	—	45,654	—	11	—	56,977
Less: accumulated depreciation/amortization	(437)	(122,095)	(107,813)	—	(232,888)	(28,042)	(357)	(5,945)	(497,577)
Construction in progress	—	—	1,233	—	6,968	—	—	354	8,555
Total noncurrent assets	25,525	61,028	102,401	8,468	112,602	—	3,224	156,850	470,098
Total assets	**$ 259,160**	**$ 298,288**	**$ 261,653**	**$ 40,695**	**$ 237,477**	**$ 156,926**	**$ 14,177**	**$ 458,691**	$ 1,727,067
LIABILITIES									
Current liabilities:									
Accounts payable	$ 14,025	$ 1,226	$ 18,787	$ 32,763	$ 25,721	$ 14,153	$ 2,549	$ 46,925	$ 156,149
Due to other funds	177	94,534	—	76	—	—	311	33,051	128,149
Due to component units	—	—	—	—	—	—	—	484	484
Due to other governments	—	—	—	535	—	18	—	59	612
Deposits	—	716	—	—	—	—	—	6,967	7,683
Contracts and notes payable	—	22	—	—	9,094	—	—	—	9,116
Advance collections	249,302	21,618	1,687	—	34	59	—	—	272,700
Current portion of long-term obligations	—	—	12,202	—	4,414	—	221	—	16,837
Other liabilities	1,885	156	733	—	31	1,120	—	3,836	7,761
Total current liabilities	265,389	118,272	33,409	33,374	39,294	15,350	3,081	91,322	599,491
Noncurrent liabilities:									
Interfund payables	—	4,918	—	—	1,971	95,291	37,650	430	140,260
Compensated absences payable	9,341	65,274	—	—	22,031	46,761	1,138	1,612	146,157
Net other postemployment benefits obligation	9,539	155,414	32,258	7,321	41,473	—	—	43,262	289,267
Other noncurrent liabilities	957	17,760	13,613	—	15,078	—	—	—	47,408
Total noncurrent liabilities	19,837	243,366	45,871	7,321	80,553	142,052	38,788	45,304	623,092
Total liabilities	**285,226**	**361,638**	**79,280**	**40,695**	**119,847**	**157,402**	**41,869**	**136,626**	1,222,583
NET ASSETS									
Investment in capital assets, net of related debt	—	25,385	44,565	—	72,501	—	—	6,947	149,398
Unrestricted	(26,066)	(88,735)	137,808	—	45,129	(476)	(27,692)	315,118	355,086
Total net assets (deficits)	**(26,066)**	**(63,350)**	**182,373**	**—**	**117,630**	**(476)**	**(27,692)**	**322,065**	504,484
Total liabilities and net assets	**$ 259,160**	**$ 298,288**	**$ 261,653**	**$ 40,695**	**$ 237,477**	**$ 156,926**	**$ 14,177**	**$ 458,691**	$ 1,727,067

Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets

Internal Service Funds

Year Ended June 30, 2012
(amounts in thousands)

	Architecture Revolving	Service Revolving	Prison Industries	Office of Systems Integration	Technology Services Revolving	Water Resources Revolving	Financial Information System	Other Internal Service Programs	Total
OPERATING REVENUES									
Services and sales	$ 305,423	$ 749,727	$ 196,288	$ 76,549	$ 295,599	$ 356,134	$ —	$ 329,152	$ 2,308,872
Total operating revenues	**305,423**	**749,727**	**196,288**	**76,549**	**295,599**	**356,134**	**—**	**329,152**	**2,308,872**
OPERATING EXPENSES									
Personal services	33,753	247,443	61,084	1,674	133,389	344,077	410	20,998	842,828
Supplies	—	—	2,211	—	—	10,887	—	200	13,298
Services and charges	272,483	458,566	148,874	73,527	146,133	—	(1,823)	321,514	1,419,274
Depreciation	25	12,078	6,261	—	27,273	1,646	190	213	47,686
Total operating expenses	**306,261**	**718,087**	**218,430**	**75,201**	**306,795**	**356,610**	**(1,223)**	**342,925**	**2,323,086**
Operating income (loss)	(838)	31,640	(22,142)	1,348	(11,196)	(476)	1,223	(13,773)	(14,214)
NONOPERATING REVENUES (EXPENSES)									
Investment and interest income	—	—	261	—	208	—	—	453	922
Interest expense and fiscal charges	—	—	(1)	—	(663)	—	—	—	(664)
Other	—	—	428	—	(798)	—	—	—	(370)
Total nonoperating revenues (expenses)	**—**	**—**	**688**	**—**	**(1,253)**	**—**	**—**	**453**	**(112)**
Income (loss) before capital contributions and transfers	(838)	31,640	(21,454)	1,348	(12,449)	(476)	1,223	(13,320)	(14,326)
Transfers in	—	184	—	—	—	—	—	—	184
Transfers out	—	(42,762)	—	—	—	—	—	(12,967)	(55,729)
Change in net assets	(838)	(10,938)	(21,454)	1,348	(12,449)	(476)	1,223	(26,287)	(69,871)
Total net assets (deficit), July 1, 2011	**(25,228)**	**(52,412)**	**203,827**	**(1,348)**	**130,079**	**—**	**(28,915)**	**348,352**	**574,355**
Total net assets (deficit), June 30, 2012	**$ (26,066)**	**$ (63,350)**	**$ 182,373**	**$ —**	**$ 117,630**	**$ (476)**	**$ (27,692)**	**$ 322,065**	**$ 504,484**

Combining Statement of Cash Flows

Internal Service Funds

Year Ended June 30, 2012
(amounts in thousands)

	Architecture Revolving	Service Revolving	Prison Industries	Office of Systems Integration	Technology Services Revolving	Water Resources Revolving	Financial Information System	Other Internal Service Programs	Total
CASH FLOW FROM OPERATING ACTIVITIES									
Receipts from customers	$ 273,452	$ 749,906	$ 193,970	$ 96,681	$ 314,672	$ 349,666	$ —	$ 329,104	$ 2,307,451
Receipts from interfund services provided	45,653	15,584	10,035	31,218	—	22,644	1,231	20,259	146,624
Payments to suppliers	(282,909)	(458,853)	(140,602)	(108,677)	(151,273)	—	(4,086)	(314,182)	(1,460,582)
Payments to employees	(33,065)	(204,334)	(60,692)	—	(116,749)	(334,785)	—	(10,156)	(759,781)
Payments for interfund services used	—	—	(9,298)	—	(2,214)	(482)	(2,557)	(39,820)	(54,371)
Other receipts (payments)	4,084	473	(63)	5	2,214	(11,759)	(16)	(7,709)	(12,771)
Net cash provided by (used in) operating activities	**7,215**	**102,776**	**(6,650)**	**19,227**	**46,650**	**25,284**	**(5,428)**	**(22,504)**	166,570
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES									
Change in interfund payables and loans payable	—	851	23,400	—	79	—	—	(3,347)	20,983
Interest paid on operating debt	—	—	(1)	—	—	—	—	—	(1)
Transfers in	—	184	—	—	—	—	—	3,347	3,531
Transfers out	—	(42,762)	—	—	—	—	—	(12,967)	(55,729)
Net cash provided by (used in) noncapital financing activities	**—**	**(41,727)**	**23,399**	**—**	**79**	**—**	**—**	**(12,967)**	(31,216)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES									
Acquisition of capital assets	(25)	(2,350)	(6,839)	—	(29,068)	(1,646)	(334)	(262)	(40,524)
Proceeds from sale of capital assets	—	868	551	—	—	—	—	—	1,419
Principal paid on notes payable and commercial paper	—	—	—	—	(17,367)	—	—	—	(17,367)
Interest paid	—	—	—	—	(663)	—	—	—	(663)
Net cash used in capital and related financing activities	**(25)**	**(1,482)**	**(6,288)**	**—**	**(47,098)**	**(1,646)**	**(334)**	**(262)**	(57,135)
CASH FLOWS FROM INVESTING ACTIVITIES									
Changes in interfund receivables and loans receivable	(25,525)	(35,643)	(57,836)	(8,468)	3,194	—	(2,861)	74,144	(52,995)
Earnings on investments	—	—	263	—	191	—	—	453	907
Net cash provided by (used in) investing activities	**(25,525)**	**(35,643)**	**(57,573)**	**(8,468)**	**3,385**	**—**	**(2,861)**	**74,597**	(52,088)
Net increase (decrease) in cash and pooled investments	(18,335)	23,924	(47,112)	10,759	3,016	23,638	(8,623)	38,864	26,131
Cash and pooled investments at July 1, 2011	**224,314**	**48,198**	**160,146**	**5,442**	**32,984**	**2,987**	**14,044**	**218,989**	707,104
Cash and pooled investments at June 30, 2012	**$ 205,979**	**$ 72,122**	**$ 113,034**	**$ 16,201**	**$ 36,000**	**$ 26,625**	**$ 5,421**	**$ 257,853**	$ 733,235

(continued)

Combining Statement of Cash Flows (continued)

Internal Service Funds

Year Ended June 30, 2012
(amounts in thousands)

	Architecture Revolving	Service Revolving	Prison Industries	Office of Systems Integration	Technology Services Revolving	Water Resources Revolving	Financial Information System	Other Internal Service Programs	Total
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES									
Operating income (loss)	$ (838)	$ 31,640	$ (22,142)	$ 1,348	$ (11,196)	$ (476)	$ 1,223	$ (13,773)	$ (14,214)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:									
Interest expense on operating debt	—	—	740	—	—	—	—	—	740
Depreciation	25	12,078	6,261	—	27,273	1,646	190	213	47,686
Change in assets and liabilities:									
Receivables	1,746	(1,748)	264	20,132	2,533	(5,175)	(16)	235	17,971
Due from other funds	40,272	6,160	8,198	31,225	16,601	22,162	(1,546)	(8,344)	114,728
Due from other governments	818	463	(170)	—	81	—	—	15	1,207
Prepaid items	(15)	2,001	2	197	1,459	863	3	190	4,700
Inventories	—	301	1,032	—	(469)	100	—	—	964
Accounts payable	(9,015)	(2,589)	1,161	(35,347)	(6,468)	(3,076)	(1,231)	9,299	(47,266)
Due to other funds	(174)	9,424	(15)	(7)	—	—	(4,045)	(27,306)	(22,123)
Due to component units	—	—	—	—	—	—	(416)	1	(415)
Due to other governments	—	—	—	5	—	18	—	(214)	(191)
Deposits	—	(120)	—	—	—	—	—	6,967	6,847
Contracts and notes payable	—	(391)	—	—	—	—	—	—	(391)
Advance collections	(30,740)	1,729	(873)	—	(2)	(812)	—	—	(30,698)
Other current liabilities	1,520	16	(9,761)	—	1,691	444	—	(277)	(6,367)
Interfund payables	—	—	—	—	—	298	—	—	298
Benefits payables	—	34,448	—	—	—	—	—	—	34,448
Compensated absences payable	1,685	10,109	502	—	1,504	9,292	577	274	23,943
Capital lease obligations	—	(745)	—	—	13,643	—	(167)	—	12,731
Other noncurrent liabilities	1,931	—	8,151	1,674	—	—	—	10,216	21,972
Total adjustments	8,053	71,136	15,492	17,879	57,846	25,760	(6,651)	(8,731)	180,784
Net cash provided by (used in) operating activities	**$ 7,215**	**$ 102,776**	**$ (6,650)**	**$ 19,227**	**$ 46,650**	**$ 25,284**	**$ (5,428)**	**$ (22,504)**	**$ 166,570**

(concluded)

	Architecture Revolving	Service Revolving	Prison Industries	Office of Systems Integration	Technology Services Revolving	Water Resources Revolving	Financial Information System	Other Internal Service Programs	Total
Noncash investing, capital, and financing activities									
Capital acquisitions financed through notes payable	$ —	$ —	$ —	$ —	$ 14,701	$ —	$ —	$ —	$ 14,701

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Nonmajor Enterprise Funds

Enterprise funds account for operations that are financed and operated in a manner similar to private business enterprises, where the costs of providing goods or services to the general public on a continuing basis are intended to be financed or recovered primarily through user charges. Following are brief descriptions of nonmajor enterprise funds.

The **High Technology Education Fund** accounts for construction and renovation of public buildings for educational and research purposes related to specific fields of high technology.

The **State Water Pollution Control Revolving Fund** accounts for loans to finance the construction of publicly owned water pollution control facilities.

The **Housing Loan Fund** accounts for financing and contracts for the sale of properties to eligible California veterans.

Other enterprise program funds account for all other goods or services provided to the general public on a continuing basis when all or most of the cost involved is to be financed by user charges, or when periodic measurement of the results of operations is appropriate for management control, accountability, capital maintenance, public policy, or other purposes.

Combining Statement of Net Assets
Nonmajor Enterprise Funds

June 30, 2012
(amounts in thousands)

	High Technology Education	State Water Pollution Control	Housing Loan	Other Enterprise Programs	Total
ASSETS					
Current assets:					
Cash and pooled investments	$ —	$ 226,549	$ 171,897	$ 244,400	$ 642,846
Restricted assets:					
Cash and pooled investments	4,051	47,001	—	—	51,052
Due from other governments	—	45,618	—	—	45,618
Net investment in direct financing leases	19,342	—	—	—	19,342
Receivables (net)	3,398	—	46,865	556	50,819
Due from other funds	26	1,799	2,732	271	4,828
Due from other governments	—	180,579	—	4,828	185,407
Prepaid items	—	—	—	12	12
Inventories	—	—	—	3,292	3,292
Other current assets	—	44	—	—	44
Total current assets	26,817	501,590	221,494	253,359	1,003,260
Noncurrent assets:					
Restricted assets:					
Cash and pooled investments	15,673	—	—	—	15,673
Investments	11,409	—	—	—	11,409
Loans receivable	—	192,549	—	—	192,549
Investments	—	—	29,260	—	29,260
Net investment in direct financing leases	19,306	—	—	—	19,306
Interfund receivables	—	6,584	9,530	15,770	31,884
Loans receivable	—	2,745,378	1,109,644	119,851	3,974,873
Deferred charges	25	102	10,339	—	10,466
Capital assets:					
Land	—	—	443	829	1,272
Buildings and other depreciable property	—	—	15,816	3,773	19,589
Intangible assets – amortizable	—	—	—	1,149	1,149
Less: accumulated depreciation/amortization	—	—	(15,664)	(536)	(16,200)
Intangible assets – non-amortizable	—	—	—	87	87
Other noncurrent assets	—	—	20,798	—	20,798
Total noncurrent assets	46,413	2,944,613	1,180,166	140,923	4,312,115
Total assets	**$ 73,230**	**$ 3,446,203**	**$ 1,401,660**	**$ 394,282**	$ 5,315,375

(continued)

Combining Statement of Net Assets (continued)

Nonmajor Enterprise Funds

June 30, 2012
(amounts in thousands)

	High Technology Education	State Water Pollution Control	Housing Loan	Other Enterprise Programs	Total
LIABILITIES					
Current liabilities:					
Accounts payable	$ —	$ —	$ 3,214	$ 2,966	$ 6,180
Due to other funds	—	420	—	2,489	2,909
Due to other governments	—	—	—	305	305
Deferred revenue	—	73	—	—	73
Deposits	—	—	—	71	71
Advance collections	—	—	—	45	45
Interest payable	206	1,339	14,405	—	15,950
Current portion of long-term obligations	18,124	23,432	28,145	7,460	77,161
Other current liabilities	—	—	—	309	309
Total current liabilities	18,330	25,264	45,764	13,645	103,003
Noncurrent liabilities:					
Compensated absences payable	—	—	—	2,677	2,677
General obligation bonds payable	—	—	733,519	—	733,519
Revenue bonds payable	19,705	93,043	466,349	—	579,097
Net other postemployment benefits obligation	—	—	1,089	4,210	5,299
Other noncurrent liabilities	—	151	—	99,350	99,501
Total noncurrent liabilities	19,705	93,194	1,200,957	106,237	1,420,093
Total liabilities	**38,035**	**118,458**	**1,246,721**	**119,882**	**1,523,096**
NET ASSETS					
Investment in capital assets, net of related debt	—	—	595	5,329	5,924
Restricted – expendable:					
Debt service	35,195	32,567	154,344	—	222,106
Security for revenue bonds	—	238,166	—	—	238,166
Other purposes	—	—	—	195,519	195,519
Total expendable	35,195	270,733	154,344	195,519	655,791
Unrestricted	—	3,057,012	—	73,552	3,130,564
Total net assets	**35,195**	**3,327,745**	**154,939**	**274,400**	**3,792,279**
Total liabilities and net assets	**$ 73,230**	**$ 3,446,203**	**$ 1,401,660**	**$ 394,282**	**$ 5,315,375**

(concluded)

Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets

Nonmajor Enterprise Funds

Year Ended June 30, 2012
(amounts in thousands)

	High Technology Education	State Water Pollution Control	Housing Loan	Other Enterprise Programs	Total
OPERATING REVENUES					
Services and sales	$ —	$ 7,357	$ 5,172	$ 69,046	$ 81,575
Investment and interest	614	49,080	77,789	826	128,309
Rent	7,838	—	—	4,068	11,906
Other	—	—	1,129	133	1,262
Total operating revenues	**8,452**	**56,437**	**84,090**	**74,073**	**223,052**
OPERATING EXPENSES					
Personal services	—	1,546	7,623	5,650	14,819
Services and charges	—	881	12,699	70,372	83,952
Depreciation	—	—	56	248	304
Interest expense	7,754	—	58,772	—	66,526
Amortization (recovery) of deferred charges	24	—	4,091	—	4,115
Other	—	1,303	—	—	1,303
Total operating expenses	**7,778**	**3,730**	**83,241**	**76,270**	**171,019**
Operating income (loss)	674	52,707	849	(2,197)	52,033
NONOPERATING REVENUES (EXPENSES)					
Investment and interest income	—	1,103	740	703	2,546
Interest expense and fiscal charges	—	(4,984)	—	—	(4,984)
Other	—	(66)	(6,329)	(2,414)	(8,809)
Total nonoperating revenues (expenses)	**—**	**(3,947)**	**(5,589)**	**(1,711)**	**(11,247)**
Income (loss) before capital contributions and transfers	674	48,760	(4,740)	(3,908)	40,786
Capital contributions	—	106,057	—	—	106,057
Transfers out	(386)	—	—	(674)	(1,060)
Change in net assets	288	154,817	(4,740)	(4,582)	145,783
Total net assets, July 1, 2011	**34,907**	**3,172,928**	**159,679**	**278,982** *	**3,646,496**
Total net assets, June 30, 2012	**$ 35,195**	**$ 3,327,745**	**$ 154,939**	**$ 274,400**	**3,792,279**

*Restated

Combining Statement of Cash Flows

Nonmajor Enterprise Funds

Year Ended June 30, 2012
(amounts in thousands)

	High Technology Education	State Water Pollution Control	Housing Loan	Other Enterprise Programs	Total
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers/employers	$ —	$ 49,965	$ 4,793	$ 71,981	$ 126,739
Receipts from interfund services provided	—	—	—	3,301	3,301
Payments to suppliers	—	(2,112)	(19,538)	(69,849)	(91,499)
Payments to employees	—	(1,546)	—	(4,558)	(6,104)
Payments for interfund services used	—	—	—	(298)	(298)
Claims paid to other than employees	—	—	—	(4)	(4)
Other receipts (payments)	22,014	(113,510)	183,384	110,583	202,471
Net cash provided by (used in) operating activities	**22,014**	**(67,203)**	**168,639**	**111,156**	**234,606**
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Change in interfund payables and loans payable	—	—	4,637	—	4,637
Proceeds from general obligation bonds	—	—	321,585	—	321,585
Retirement of general obligation bonds	—	—	(363,500)	—	(363,500)
Retirement of revenue bonds	(21,105)	(24,285)	(74,780)	—	(120,170)
Interest paid on operating debt	—	(5,954)	—	—	(5,954)
Grant provided	—	—	—	(83)	(83)
Transfers in	—	—	—	—	—
Transfers out	(386)	(4,000)	—	(6,166)	(10,552)
Net cash provided by (used in) noncapital financing activities	**(21,491)**	**(34,239)**	**(112,058)**	**(6,249)**	**(174,037)**
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Changes in interfund payables and loans payable	—	—	—	13	13
Acquisition of capital assets	—	—	(40)	(670)	(710)
Proceeds from sale of capital assets	—	—	—	150	150
Grants received	—	108,641	—	—	108,641
Net cash provided by (used in) capital and related financing activities	**—**	**108,641**	**(40)**	**(507)**	**108,094**
CASH FLOWS FROM INVESTING ACTIVITIES					
Proceeds from maturity and sale of investments	—	—	2,987	—	2,987
Change in interfund receivables and loans receivable	—	—	3,523	—	3,523
Earnings on investments	—	1,165	775	705	2,645
Net cash provided by (used in) investing activities	**—**	**1,165**	**7,285**	**705**	**9,155**
Net increase (decrease) in cash and pooled investments	523	8,364	63,826	105,105	177,818
Cash and pooled investments at July 1, 2011	**19,201**	**265,186**	**108,071**	**139,295** *	**531,753**
Cash and pooled investments at June 30, 2012	**$ 19,724**	**$ 273,550**	**$ 171,897**	**$ 244,400**	**$ 709,571**

(continued)

* Restated

Combining Statement of Cash Flows (continued)

Nonmajor Enterprise Funds

Year Ended June 30, 2012
(amounts in thousands)

	High Technology Education	State Water Pollution Control	Housing Loan	Other Enterprise Programs	Total
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES					
Operating income (loss)	$ 674	$ 52,707	$ 849	$ (2,197)	$ 52,033
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:					
Depreciation	—	—	56	248	304
Provisions and allowances	—	—	4,596	—	4,596
Amortization of discounts	67	—	—	—	67
Amortization of deferred charges	4,128	—	4,091	—	8,219
Other	288	(5,388)	1,624	120,024	116,548
Change in assets and liabilities:					
Receivables	(1)	—	1,150	(261)	888
Due from other funds	7	(66)	4	1,540	1,485
Due from other governments	—	(1,591)	—	(1,189)	(2,780)
Prepaid items	—	—	—	4	4
Inventories	—	—	—	(104)	(104)
Net investment in direct financing leases	16,946	—	—	—	16,946
Other current assets	—	—	(8,315)	22	(8,293)
Loans receivable	—	(112,865)	(4,035)	1,940	(114,960)
Interfund receivables	—	—	168,773	—	168,773
Accounts payable	—	—	2,421	(5,140)	(2,719)
Due to other funds	—	72	(912)	1,701	861
Due to other governments	—	—	—	283	283
Deposits	—	—	—	(11)	(11)
Advance collections	—	—	—	(29)	(29)
Interest payable	(95)	—	—	—	(95)
Other current liabilities	—	—	(935)	690	(245)
Deferred revenue	—	(72)	—	—	(72)
Benefits payable	—	—	(2,593)	—	(2,593)
Compensated absences payable	—	—	—	35	35
Other noncurrent liabilities	—	—	1,865	(6,400)	(4,535)
Total adjustments	21,340	(119,910)	167,790	113,353	182,573
Net cash provided by (used in) operating activities	**$ 22,014**	**$ (67,203)**	**$ 168,639**	**$ 111,156**	**$ 234,606**

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Private Purpose Trust Funds

Private purpose trust funds account for all trust arrangements, other than those properly reported in pension and other employee benefit trust funds or investment trust funds, under which both principal and income benefit individuals, private organizations, or other governments. Following are brief descriptions of private purpose trust funds.

The **Scholarshare Program Trust Fun**d accounts for money received from participants to fund their beneficiaries' higher-education expenses at certain postsecondary educational institutions.

The **Unclaimed Property Fund** accounts for unclaimed money and properties held in trust by the State.

Other private purpose trust funds account for other assets held in a trustee capacity when both principal and income benefit individuals, private organizations, or other governments.

Combining Statement of Fiduciary Net Assets
Private Purpose Trust Funds

June 30, 2012
(amounts in thousands)

	Scholarshare Program Trust	Unclaimed Property	Other Private Purpose Trust	Total
ASSETS				
Cash and pooled investments	$ 25	$ 61,726	$ 1,357	$ 63,108
Investments, at fair value:				
Equity securities	2,169,921	—	—	2,169,921
Debt securities	1,454,642	—	—	1,454,642
Real estate	156,291	—	—	156,291
Other	720,767	—	—	720,767
Total investments	4,501,621	—	—	4,501,621
Receivables (net)	10,261	52,929	—	63,190
Due from other funds	—	—	1	1
Interfund receivables	—	48,163	—	48,163
Other assets	—	173,487	1	173,488
Total assets	4,511,907	336,305	1,359	4,849,571
LIABILITIES				
Accounts payable	10,583	—	73	10,656
Deposits	—	173,487	—	173,487
Other liabilities	—	—	307	307
Total liabilities	10,583	173,487	380	184,450
NET ASSETS				
Held in trust for benefits and other purposes	**$ 4,501,324**	**$ 162,818**	**$ 979**	$ 4,665,121

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Combining Statement of Changes in Fiduciary Net Assets
Private Purpose Trust Funds

Year Ended June 30, 2012
(amounts in thousands)

	Scholarshare Program Trust	Unclaimed Property	Other Private Purpose Trust	Total
ADDITIONS				
Investment income:				
Net appreciation (depreciation) in fair value of investments	$ (3,090)	$ —	$ —	$ (3,090)
Interest, dividends, and other investment income	127,878	—	—	127,878
Less: investment expense	(27,188)	—	—	(27,188)
Net investment income	97,600	—	—	97,600
Receipts from depositors	1,568,861	288,303	150	1,857,314
Total additions	**1,666,461**	**288,303**	**150**	1,954,914
DEDUCTIONS				
Administrative expenses	—	—	4	4
Payments to and for depositors	1,686,907	228,019	44	1,914,970
Total deductions	**1,686,907**	**228,019**	**48**	1,914,974
Change in net assets	(20,446)	60,284	102	39,940
Net assets, July 1, 2011	**4,521,770**	**102,534**	**877**	4,625,181
Net assets, June 30, 2012	**$4,501,324**	**$162,818**	**$ 979**	$4,665,121

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Fiduciary Funds and Similar Component Units – Pension and Other Employee Benefit Trust Funds

Pension and other employee benefit trust funds account for transactions, assets, liabilities, and net assets available for pension and other employee benefits of the two public employees' retirement systems that are fiduciary component units and for other primary government employee benefit programs. Following are brief descriptions of pension and other employee benefit trust funds.

The **Public Employees' Retirement Fund** is administered by the California Public Employees' Retirement System (CalPERS) and accounts for the employee and employer contributions of the agent multiple-employer retirement plan that provides pension benefits to employees of the State of California, non-teaching school employees, and employees of California public agencies.

The **Public Employees' Health Benefits Fund** is administered by CalPERS and accounts for the voluntary contributions from participating employers of the agent multiple-employer other postemployment benefits plan that provides prefunding accounts to pay for health care or other postemployment benefits in accordance with the terms of the participating employer's plans.

The **State Teachers' Retirement Fund** is administered by the California State Teachers' Retirement System (CalSTRS) and accounts for the employee, employer, and primary government contributions of the cost-sharing multiple-employer retirement plan that provides pension benefits to teachers and certain other employees of the California public school system.

The **Teachers' Health Benefits Fund** is administered by CalSTRS and accounts for post-employment health benefits to retired members of the defined benefit program.

The **Deferred Compensation Fund** accounts for moneys withheld from the salaries of participants per the Internal Revenue Code sections 401(k), 457, and 403(b). The moneys are invested until the employee retires or resigns, at which time all money withdrawn, including investment income, is subject to income taxes.

The **Judges' Retirement Fund** is administered by CalPERS and accounts for the employee and employer contributions of the agent multiple-employer retirement plan that provides pension benefits to judges of the California Supreme Court, courts of appeal, and superior courts who were appointed or elected prior to November 9, 1994.

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The **Judges' Retirement Fund II** is administered by CalPERS and accounts for the employee and employer contributions of the agent multiple-employer retirement plan that provides pension benefits to judges of the California Supreme Court, courts of appeal, and superior courts who were appointed or elected on or subsequent to November 9, 1994.

The **Legislators' Retirement Fund** is administered by CalPERS and accounts for the employee and employer contributions of the single-employer retirement plan that provides pension benefits to members of the Legislature serving prior to November 1, 1990, constitutional officers, and legislative statutory officers who elect to participate in the plan.

The **State Peace Officers' and Firefighters' Defined Contribution Plan Fund** is administered by CalPERS and accounts for the employer contributions to the defined contribution plan that supplements the retirement benefits provided to eligible peace officers and firefighters employed by the State of California.

The **Supplemental Contributions Program Fund** is administered by CalPERS and accounts for deposits by participating employees to their accounts in this plan. This fund accepts voluntary after-tax contributions and invests these contributions for the benefit of the participants in the program.

Other pension and other employee benefit trust funds account for contributions from professional boxers, managers, and promoters, and fees collected from admission charges to boxing events to finance a retirement fund for professional boxers; and funds contributed by eligible state employees who elect to participate in and contribute to a flexible benefits program that permits eligible employees to receive one or more benefits that qualify for exclusion from gross income instead of receiving a portion of salary.

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Combining Statement of Fiduciary Net Assets

Fiduciary Funds and Similar Component Units - Pension and Other Employee Benefit Trust Funds

June 30, 2012
(amounts in thousands)

	Public Employees' Retirement	Public Employees' Health Benefits	State Teachers' Retirement	Teachers' Health Benefits	Deferred Compensation
ASSETS					
Cash and pooled investments	$ 1,574,364	$ 10,669	$ 1,817,829	$ 542	$ 19,160
Investments, at fair value:					
Short-term	3,752,103	42,985	2,264,902	—	176,036
Equity securities	113,614,468	1,283,554	73,444,437	—	3,930,821
Debt securities	49,930,209	373,287	28,673,273	—	3,189,568
Real estate	24,675,857	163,342	22,691,550	—	9,819
Other	41,265,280	191,327	23,393,092	—	2,265,193
Securities lending collateral	9,325,426	33,601	23,689,628	—	3,558
Total investments	242,563,343	2,088,096	174,156,882	—	9,574,995
Receivables (net)	1,814,083	36,214	1,660,825	—	16,007
Due from other funds	424,560	1	35,530	2	103
Due from other governments	—	—	—	—	11
Other assets	715,911	—	244,507	—	—
Total assets	**247,092,261**	**2,134,980**	**177,915,573**	**544**	**9,610,276**
LIABILITIES					
Accounts payable	844	3,142	1,624,035	1	2,035
Due to other governments	1,919	—	98,147	—	—
Benefits payable	281,571	19,070	78,049	—	—
Securities lending obligations	9,151,585	32,933	23,734,609	—	3,488
Loans payable	—	—	1,011,158	—	—
Other liabilities	674,397	1,249	51,518	105	4,192
Total liabilities	**10,110,316**	**56,394**	**26,597,516**	**106**	**9,715**
NET ASSETS					
Held in trust for benefits and other purposes	**$ 236,981,945**	**$ 2,078,586**	**$ 151,318,057**	**$ 438**	**$ 9,600,561**

	Judges' Retirement	Judges' Retirement II	Legislators' Retirement	State Peace Officers' and Firefighters' Defined Contribution Plan	Supplemental Contributions Program	Other Pension and Other Employee Benefit Trust	Total
ASSETS							
Cash and pooled investments	$ 14,927	$ 6,752	$ 686	$ 666	$ 1	$ 12,096	$ 3,457,692
Investments, at fair value:							
Short-term	55,869	—	5	17,234	1,059	—	6,310,193
Equity securities	—	406,543	39,660	274,936	10,425	—	193,004,844
Debt securities	—	125,773	50,715	126,620	4,692	—	82,474,137
Real estate	—	52,189	10,022	14,226	456	—	47,617,461
Other	—	57,850	21,984	41,243	1,984	—	67,237,953
Securities lending collateral	—	40,714	4,319	1,861	55	—	33,099,162
Total investments	55,869	683,069	126,705	476,120	18,671	—	429,743,750
Receivables (net)	2,535	5,779	196	10	14	—	3,535,663
Due from other funds	—	—	—	—	—	11	460,207
Due from other governments	—	—	—	—	—	—	11
Other assets	—	—	—	—	—	—	960,418
Total assets	**73,331**	**695,600**	**127,587**	**476,796**	**18,686**	**12,107**	**438,157,741**
LIABILITIES							
Accounts payable	—	—	—	—	—	804	1,630,861
Due to other governments	7	—	—	—	—	—	100,073
Benefits payable	—	—	164	—	—	—	378,854
Securities lending obligations	—	39,904	4,233	1,824	53	—	32,968,629
Loans payable	—	—	—	—	—	—	1,011,158
Other liabilities	576	313	161	1,192	46	517	734,266
Total liabilities	**583**	**40,217**	**4,558**	**3,016**	**99**	**1,321**	**36,823,841**
NET ASSETS							
Held in trust for benefits and other purposes	**$ 72,748**	**$ 655,383**	**$ 123,029**	**$ 473,780**	**$ 18,587**	**$ 10,786**	**$ 401,333,900**

Combining Statement of Changes in Fiduciary Net Assets

Fiduciary Funds and Similar Component Units - Pension and Other Employee Benefit Trust Funds

Year Ended June 30, 2012
(amounts in thousands)

	Public Employees' Retirement	Public Employees' Health Benefits	State Teachers' Retirement	Teachers' Health Benefits	Deferred Compensation
ADDITIONS					
Contributions:					
Employer	$ 7,772,913	$ 771,750	$ 3,540,564	$ 34,614	$ 80
Plan member	3,598,437	9,317	2,279,900	—	687,063
Total contributions	11,371,350	781,067	5,820,464	34,614	687,143
Investment income:					
Net appreciation (depreciation) in fair value of investments	(1,596,030)	—	(2,588,804)	—	7,163
Interest, dividends, and other investment income	4,182,118	8,623	3,870,303	8	47,214
Less: investment expense	(2,789,172)	(557)	(210,179)	—	(1,259)
Net investment income	(203,084)	8,066	1,071,320	8	53,118
Other	7,070	—	4,115	—	13,341
Total additions	**11,175,336**	**789,133**	**6,895,899**	**34,622**	**753,602**
DEDUCTIONS					
Distributions to beneficiaries	15,356,696	575,514	10,677,135	34,412	19,997
Refunds of contributions	218,082	—	108,111	—	—
Administrative expense	380,404	1,910	138,411	370	14,812
Payments to and for depositors	—	—	—	—	483,814
Total deductions	**15,955,182**	**577,424**	**10,923,657**	**34,782**	**518,623**
Change in net assets	(4,779,846)	211,709	(4,027,758)	(160)	234,979
Net assets, July 1, 2011	**241,761,791**	**1,866,877**	**155,345,815**	**598**	**9,365,582**
Net assets, June 30, 2012	**$ 236,981,945**	**$ 2,078,586**	**$ 151,318,057**	**$ 438**	**$ 9,600,561**

	Judges' Retirement	Judges' Retirement II	Legislators' Retirement	State Peace Officers' and Firefighters' Defined Contribution Plan	Supplemental Contributions Program	Other Pension and Other Employee Benefit Trust	Total
ADDITIONS							
Contributions:							
Employer	$ 196,402	$ 53,711	$ —	$ 92	$ —	$ —	$ 12,370,126
Plan member	5,796	18,757	—	69	208	22,820	6,622,367
Total contributions	202,198	72,468	—	161	208	22,820	18,992,493
Investment income:							
Net appreciation (depreciation) in fair value of investments	—	13,449	7,710	735	—	—	(4,155,777)
Interest, dividends, and other investment income	91	704	86	333	39	—	8,109,519
Less: investment expense	(11)	(206)	(35)	(1,093)	(36)	—	(3,002,548)
Net investment income	80	13,947	7,761	(25)	3	—	951,194
Other	2,877	—	—	—	—	1,572	28,975
Total additions	**205,155**	**86,415**	**7,761**	**136**	**211**	**24,392**	**19,972,662**
DEDUCTIONS							
Distributions to beneficiaries	185,373	3,536	7,659	—	—	22,056	26,882,378
Refunds of contributions	17	2,604	202	—	—	—	329,016
Administrative expense	1,163	725	347	1,589	63	1,667	541,461
Payments to and for depositors	—	—	—	24,640	1,219	—	509,673
Total deductions	**186,553**	**6,865**	**8,208**	**26,229**	**1,282**	**23,723**	**28,262,528**
Change in net assets	18,602	79,550	(447)	(26,093)	(1,071)	669	(8,289,866)
Net assets, July 1, 2011	**54,146**	**575,833**	**123,476**	**499,873**	**19,658**	**10,117**	**409,623,766**
Net assets, June 30, 2012	**$ 72,748**	**$ 655,383**	**$ 123,029**	**$ 473,780**	**$ 18,587**	**$ 10,786**	**$ 401,333,900**

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Agency Funds

Agency funds account for the receipt and disbursement of various taxes, deposits, deductions, and property collected by the State, acting in the capacity of an agent, for distribution to other governmental units or other organizations. Following are brief descriptions of agency funds.

The **Receipting and Disbursing Fund** accounts for the collection and disbursement of revenues and receipts on behalf of local governments. This fund also accounts for receipts from many state funds, typically for the purpose of writing a single warrant when the warrant is funded by multiple funding sources.

The **Deposit Fund** accounts for various deposits, such as those from condemnation and litigation proceedings.

Other agency activity funds account for other assets held by the State, which acts as an agent for individuals, private organizations, and other governments.

Combining Statement of Fiduciary Assets and Liabilities

Agency Funds

June 30, 2012

(amounts in thousands)

	Receipting and Disbursing	Deposit	Other Agency Activities	Total
ASSETS				
Cash and pooled investments	$ 925,523	$ 1,212,067	$ 35,393	$ 2,172,983
Receivables (net)	1,072,884	67,885	1,510	1,142,279
Due from other funds	21,578,395	73,910	764	21,653,069
Due from other governments	22,239	37,572	—	59,811
Prepaid Items	24,517	1,702	—	26,219
Interfund receivables	885,790	159,708	5,429	1,050,927
Loans receivable	—	—	7,942	7,942
Other assets	55	30	—	85
Total assets	**$ 24,509,403**	**$ 1,552,874**	**$ 51,038**	$ 26,113,315
LIABILITIES				
Accounts payable	$ 8,481,795	$ 42,224	$ 4,672	$ 8,528,691
Due to other governments	15,720,870	2,884	26,042	15,749,796
Tax overpayments	4,386	—	—	4,386
Benefits payable	199,087	—	—	199,087
Deposits	69,578	731,030	6,343	806,951
Advance collections	17,248	1,457	—	18,705
Other liabilities	16,439	775,279	13,981	805,699
Total liabilities	**$ 24,509,403**	**$ 1,552,874**	**$ 51,038**	$ 26,113,315

Combining Statement of Changes in Fiduciary Assets and Liabilities

Agency Funds

Year Ended June 30, 2012

(amounts in thousands)

Receipting and Disbursing Fund	Balance July 1, 2011	Additions	Deductions	Balance June 30, 2012
ASSETS				
Cash and pooled investments	$ 2,654,587	$ 133,796,691	$ 135,525,755	$ 925,523
Receivables (net)	456,835	6,052,169	5,436,120	1,072,884
Due from other funds	13,393,658	18,991,663	10,806,926	21,578,395
Due from other governments	13,165	128,764	119,690	22,239
Prepaid items	25,458	24,517	25,458	24,517
Interfund receivables	55,817	885,790	55,817	885,790
Other assets	81	—	26	55
Total assets	**$ 16,599,601**	**$ 159,879,594**	**$ 151,969,792**	$ 24,509,403
LIABILITIES				
Accounts payable	$ 5,248,591	$ 37,450,141	$ 34,216,937	$ 8,481,795
Due to other governments	11,046,831	36,097,422	31,423,383	15,720,870
Tax overpayments	2,995	77,854	76,463	4,386
Benefits payable	169,165	4,209,781	4,179,859	199,087
Deposits	42,636	127,136	100,194	69,578
Advance collections	85,446	493,476	561,674	17,248
Other liabilities	3,937	74,743	62,241	16,439
Total liabilities	**$ 16,599,601**	**$ 78,530,553**	**$ 70,620,751**	$ 24,509,403

Deposit Fund	Balance July 1, 2011	Additions	Deductions	Balance June 30, 2012
ASSETS				
Cash and pooled investments	$ 1,559,894	$ 27,279,543	$ 27,627,370	$ 1,212,067
Receivables (net)	21,115	347,438	300,668	67,885
Due from other funds	76,255	13,478	15,823	73,910
Due from other governments	105,294	784	68,506	37,572
Prepaid items	1,684	18	—	1,702
Interfund receivables	29,671	159,708	29,671	159,708
Other assets	49	40,677	40,696	30
Total assets	**$ 1,793,962**	**$ 27,841,646**	**$ 28,082,734**	$ 1,552,874
LIABILITIES				
Accounts payable	$ 195,272	$ 550,387	$ 703,435	$ 42,224
Due to other governments	11,066	1,851	10,033	2,884
Deposits	751,392	473,971	494,333	731,030
Advance collections	805	680	28	1,457
Other liabilities	835,427	24,894,320	24,954,468	775,279
Total liabilities	**$ 1,793,962**	**$ 25,921,209**	**$ 26,162,297**	$ 1,552,874

(continued)

Combining Statement of Changes in Fiduciary Assets and Liabilities (continued)

Agency Funds

Year Ended June 30, 2012
(amounts in thousands)

Other Agency Activity Funds

	Balance July 1, 2011	Additions	Deductions	Balance June 30, 2012
ASSETS				
Cash and pooled investments	$ 37,082	$ 5,146	$ 6,835	$ 35,393
Receivables (net)	1,599	—	89	1,510
Due from other funds	700	64	—	764
Interfund receivables	4,744	5,429	4,744	5,429
Loans receivable	6,875	1,067	—	7,942
Total assets	**$ 51,000**	**$ 11,706**	**$ 11,668**	$ 51,038
LIABILITIES				
Accounts payable	$ 4,979	$ 1,131	$ 1,438	$ 4,672
Due to other governments	25,644	398	—	26,042
Deposits	6,493	4	154	6,343
Other liabilities	13,884	97	—	13,981
Total liabilities	**$ 51,000**	**$ 1,630**	**$ 1,592**	$ 51,038

Total

	Balance July 1, 2011	Additions	Deductions	Balance June 30, 2012
ASSETS				
Cash and pooled investments	$ 4,251,563	$161,081,380	$163,159,960	$ 2,172,983
Receivables (net)	479,549	6,399,607	5,736,877	1,142,279
Due from other funds	13,470,613	19,005,205	10,822,749	21,653,069
Due from other governments	118,459	129,548	188,196	59,811
Prepaid items	27,142	24,535	25,458	26,219
Interfund receivables	90,232	1,050,927	90,232	1,050,927
Loans receivable	#REF!	1,067	—	#REF!
Other assets	130	40,677	40,722	85
Total assets	**#REF!**	**$187,732,946**	**$180,064,194**	#REF!
LIABILITIES				
Accounts payable	$ 5,448,842	$ 38,001,659	$ 34,921,810	$ 8,528,691
Due to other governments	11,083,541	36,099,671	31,433,416	15,749,796
Tax overpayments	2,995	77,854	76,463	4,386
Benefits payable	169,165	4,209,781	4,179,859	199,087
Deposits	800,521	601,111	594,681	806,951
Advance collections	86,251	494,156	561,702	18,705
Other liabilities	853,248	24,969,160	25,016,709	805,699
Total liabilities	**$ 18,444,563**	**$104,453,392**	**$ 96,784,640**	$ 26,113,315

(concluded)

Nonmajor Component Units

Nonmajor component units are legally separate entities that are discretely presented in the State's financial statements in accordance with Generally Accepted Accounting Principles (GAAP). The inclusion of component units in the State's financial statements reflects the State's financial accountability for these entities. Following are brief descriptions of nonmajor component units.

The **California Alternative Energy and Advanced Transportation Financing Authority** provides financing for alternative energy and advanced transportation technologies.

The **California Infrastructure and Economic Development Bank** provides financing for business development and public improvements.

The **California Pollution Control Financing Authority** provides financing for pollution control facilities.

The **California Health Facilities Financing Authority** provides financing for constructing, equipping, or acquiring health facilities.

The **California Educational Facilities Authority** issues revenue bonds to finance loans for students attending public and private nonprofit colleges and universities and to assist private educational institutions of higher learning in financing the expansion and construction of educational facilities. The EdFund financial information presented is as of and for the year ended September 30, 2011.

The **California School Finance Authority** provides loans to school and community college districts to assist them in obtaining equipment and facilities.

California State University auxiliary organizations provide services primarily to university students through foundations, associated student organizations, student unions, food service entities, book stores, and similar organizations.

District agricultural associations were created to exhibit all of the industries, industrial enterprises, resources, and products of the state. The financial information presented is as of and for the year ended December 31, 2011.

The **University of California Hastings College of the Law**, as the law department of the University of California, provides legal education programs and has a discretely presented component unit that provides private sources of funds for academic programs, scholarships, and faculty research.

(continued)

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The **San Joaquin River Conservancy** acquires and manages public lands within the San Joaquin River Parkway.

The **California Urban Waterfront Area Restoration Financing Authority** provides financing for coastal and inland urban waterfront restoration projects.

The **State Assistance Fund for Enterprise, Business and Industrial Development Corporation** provides financial assistance to small businesses to enhance economic development.

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Combining Statement of Net Assets

Nonmajor Component Units

June 30, 2012
(amounts in thousands)

	California Alternative Energy and Advanced Transportation Financing Authority	California Infrastructure and Economic Development Bank	California Pollution Control Financing Authority	California Health Facilities Financing Authority	California Educational Facilities Authority	California School Finance Authority	California State University Auxiliary Organizations	District Agricultural Associations	University of California Hastings College of the Law	San Joaquin River Conservancy	California Urban Waterfront Area Restoration Financing Authority	State Assistance Fund for Enterprise Business and Industrial Development Corporation	Total
ASSETS													
Current assets:													
Cash and pooled investments	$ 2,941	$ —	$ 27,733	$ 33,209	$ 12,151	$ 142	$ 369,115	$ 66,372	$ 12,828	$ 890	$ 4	$ 2,031	$ 527,416
Investments	—	—	—	—	—	—	298,124	3,453	—	—	—	—	301,577
Restricted assets:													
Cash and pooled investments	—	71,102	—	—	—	—	—	10,588	3,009	—	—	1,219	85,918
Investments	—	28,182	—	—	1,364	—	—	7,010	—	—	—	—	36,556
Receivables (net)	67	16,645	121	4,786	2,483	1	290,642	5,417	3,307	519	—	147	324,135
Due from primary government	—	65	25	61	75	—	—	—	—	470	—	—	696
Prepaid items	—	—	—	—	61	—	—	741	84	—	—	55	941
Inventories	—	—	—	—	—	—	—	—	258	—	—	—	258
Other current assets	—	—	—	—	9	—	39,429	377	—	—	—	—	39,815
Total current assets	3,008	115,994	27,879	38,056	16,143	143	997,310	93,958	19,486	1,879	4	3,452	1,317,312
Noncurrent assets:													
Restricted assets:													
Cash and pooled investments	—	—	—	—	—	—	91,539	—	—	—	—	—	91,539
Investments	—	—	—	—	644	—	—	4,700	—	—	—	—	5,344
Investments	—	—	—	—	—	—	1,248,668	—	53,680	—	—	1,118	1,303,466
Receivables (net)	—	—	—	—	1,557	—	248,780	—	12,715	—	—	—	263,052
Loans receivable	—	310,861	—	30,415	—	—	—	—	—	—	—	4,527	345,803
Deferred charges	—	1,163	—	—	56	—	—	—	—	—	—	—	1,219
Capital assets:													
Land	—	—	—	—	—	—	94,887	22,225	5,089	—	—	—	122,201
Collections – nondepreciable	—	—	—	—	—	—	7,718	—	—	—	—	—	7,718
Buildings and other depreciable property	—	—	98	74	8,831	—	1,109,694	674,926	139,153	—	—	207	1,932,983
Intangible assets – amortizable	49	—	73	65	8,292	—	10,609	—	722	—	—	—	19,810
Less: accumulated depreciation/amortization	(17)	—	(117)	(77)	(15,975)	—	(444,692)	(385,477)	(48,001)	—	—	(163)	(894,519)
Construction in progress	—	—	—	—	—	—	11,162	8,180	308	—	—	—	19,650
Intangible assets – nonamortizable	59	—	72	—	—	—	5,082	—	—	—	—	—	5,213
Other noncurrent assets	—	—	—	—	—	—	47,033	380	7,966	—	—	—	55,379
Total noncurrent assets	91	312,024	126	30,477	3,405	—	2,430,480	324,934	171,632	—	—	5,689	3,278,858
Total assets	**$ 3,099**	**$ 428,018**	**$ 28,005**	**$ 68,533**	**$ 19,548**	**$ 143**	**$ 3,427,790**	**$ 418,892**	**$ 191,118**	**$ 1,879**	**$ 4**	**$ 9,141**	$ 4,596,170

(continued)

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Combining Statement of Net Assets (continued)

Nonmajor Component Units

June 30, 2012
(amounts in thousands)

	California Alternative Energy and Advanced Transportation Financing Authority	California Infrastucture and Economic Development Bank	California Pollution Control Financing Authority	California Health Facilities Financing Authority	California Educational Facilities Authority	California School Financing Authority	California State University Auxiliary Organizations	District Agricultural Associations	University of California Hastings College of the Law	San Joaquin River Conservancy	California Urban Waterfront Area Restoration Financing Authority	State Assistance Fund for Enterprise Business and Industrial Development Corporation	Total
LIABILITIES													
Current liabilities:													
Accounts payable	$ 1,443	$ 134	$ 922	$ 150	$ 533	$ 7	$ 77,979	$ 6,860	$ 3,563	$ 524	$ —	$ 104	$ 92,219
Deferred revenue	—	2,440	—	—	—	—	61,354	7,531	781	—	—	—	72,106
Deposits	—	—	520	—	—	—	—	1,316	493	—	—	—	2,329
Contracts and notes payable	—	—	—	—	—	—	—	15,596	—	—	—	5,543	21,139
Advance collections	—	—	—	—	—	—	—	—	—	182	—	—	182
Interest payable	—	1,460	—	—	—	—	—	633	—	—	—	—	2,093
Current portion of long-term obligations	—	5,545	—	—	21	—	141,955	3,171	1,566	—	—	—	152,258
Other current liabilities	—	15,357	—	—	438	—	103,139	3,388	—	—	—	—	122,322
Total current liabilities	1,443	24,936	1,442	150	992	7	384,427	38,495	6,403	706	—	5,647	464,648
Noncurrent liabilities:													
Compensated absences payable	—	467	—	—	68	—	3,393	10,802	470	—	—	—	15,200
Certificates of participation, commercial paper, and other borrowings	—	—	—	—	—	—	56,611	—	—	—	—	—	56,611
Capital lease obligations	—	—	—	—	—	—	354,716	28	—	—	—	—	354,744
Net other postemployment benefits obligation	—	865	754	—	266	—	121,931	4,439	—	—	3	—	128,258
Revenue bonds payable	—	123,981	—	—	6,800	—	262,726	31,402	29,808	—	—	—	454,717
Other noncurrent liabilities	—	4,000	—	—	270	—	193,146	1,095	8,319	—	—	—	206,830
Total noncurrent liabilities	—	129,313	754	—	7,404	—	992,523	47,766	38,597	—	3	—	1,216,360
Total liabilities	**1,443**	**154,249**	**2,196**	**150**	**8,396**	**7**	**1,376,950**	**86,261**	**45,000**	**706**	**3**	**5,647**	1,681,008
NET ASSETS													
Investment in capital assets, net of related debt	—	—	126	61	1,132	—	198,606	264,384	66,990	—	—	—	531,299
Restricted:													
Nonexpendable - endowment	—	—	—	—	—	—	806,592	—	18,431	—	—	—	825,023
Expendable:													
Endowments and gifts	—	—	—	—	—	—	—	—	5,572	—	—	—	5,572
Education	—	—	—	—	—	—	642,054	—	15,429	—	—	—	657,483
Statute	—	273,769	—	—	—	—	—	—	—	—	—	—	273,769
Other purposes	1,656	—	25,683	68,322	9,879	136	—	20,697	—	—	1	—	126,374
Total expendable	1,656	273,769	25,683	68,322	9,879	136	642,054	20,697	21,001	—	1	—	1,063,198
Unrestricted	—	—	—	—	141	—	403,588	47,550	39,696	1,173	—	3,494	495,642
Total net assets	**1,656**	**273,769**	**25,809**	**68,383**	**11,152**	**136**	**2,050,840**	**332,631**	**146,118**	**1,173**	**1**	**3,494**	**2,915,162**
Total liabilities and net assets	**$ 3,099**	**$ 428,018**	**$ 28,005**	**$ 68,533**	**$ 19,548**	**$ 143**	**$ 3,427,790**	**$ 418,892**	**$ 191,118**	**$ 1,879**	**$ 4**	**$ 9,141**	4,596,170

(concluded)

Combining Statement of Activities

Nonmajor Component Units

Year Ended June 30, 2012
(amounts in thousands)

	California Alternative Energy and Advanced Transportation Financing Authority	California Infrastucture and Economic Development Bank	California Pollution Control Financing Authority	California Health Facilities Financing Authority	California Educational Facilities Authority
OPERATING EXPENSES					
Personal services	$ —	$ 2,960	$ 185	$ —	$ 6,591
Scholarships and fellowships	—	—	—	—	—
Supplies	—	—	—	—	—
Services and charges	584	1,009	3,731	2,142	68,407
Depreciation	—	—	—	—	1,623
Interest expense and fiscal charges	—	5,553	—	—	418
Amortization of deferred charges	—	111	—	—	—
Other	1,398	—	143	—	24,287
Total operating expenses	**1,982**	**9,633**	**4,059**	**2,142**	**101,326**
PROGRAM REVENUES					
Charges for services	—	12,246	25,853	4,353	73,946
Operating grants and contributions	—	—	—	—	—
Capital grants and contributions	—	—	—	—	—
Total program revenues	**—**	**12,246**	**25,853**	**4,353**	**73,946**
Net revenues (expenses)	(1,982)	2,613	21,794	2,211	(27,380)
GENERAL REVENUES					
Investment and interest income (loss)	—	420	—	—	152
Other	1,977	—	—	—	4,991
Total general revenues	**1,977**	**420**	**—**	**—**	**5,143**
Change in net assets	(5)	3,033	21,794	2,211	(22,237)
Net assets, July 1, 2011	**1,661**	**270,736**	**4,015**	**66,172**	**33,389**
Net assets, June 30, 2012	**$ 1,656**	**$ 273,769**	**$ 25,809**	**$ 68,383**	**$ 11,152**

	California School Financing Authority	California State University Auxiliary Organizations	District Agricultural Associations	University of California Hastings College of the Law	San Joaquin River Conservancy	California Urban Waterfront Area Restoration Financing Authority	State Assistance Fund for Enterprise Business and Industrial Development Corporation	Total
OPERATING EXPENSES								
Personal services	$ —	$ 369,145	$ 60,001	$ 32,566	$ —	$ —	$ —	$ 471,448
Scholarships and fellowships	—	43,607	—	2,266	—	—	—	45,873
Supplies	—	—	—	8,090	—	—	—	8,090
Services and charges	84	941,079	122,414	5,612	120	—	1,226	1,146,408
Depreciation	—	46,700	20,460	3,264	—	—	—	72,047
Interest expense and fiscal charges	—	31,803	1,792	1,379	—	—	52	40,997
Amortization of deferred charges	—	—	—	—	—	—	—	111
Other	—	37,391	202	2,163	—	—	114	65,698
Total operating expenses	**84**	**1,469,725**	**204,869**	**55,340**	**120**	**—**	**1,392**	**1,850,672**
PROGRAM REVENUES								
Charges for services	—	675,490	230,614	42,797	—	—	553	1,065,852
Operating grants and contributions	—	550,645	—	8,701	305	—	271	559,922
Capital grants and contributions	—	12,273	1,128	227	—	—	—	13,628
Total program revenues	**—**	**1,238,408**	**231,742**	**51,725**	**305**	**—**	**824**	**1,639,402**
Net revenues (expenses)	(84)	(231,317)	26,873	(3,615)	185	—	(568)	(211,270)
GENERAL REVENUES								
Investment and interest income (loss)	—	(1,342)	88	(633)	—	—	—	(1,315)
Other	67	253,064	6,834	5,880	—	—	399	273,212
Total general revenues	**67**	**251,722**	**6,922**	**5,247**	**—**	**—**	**399**	**271,897**
Change in net assets	(17)	20,405	33,795	1,632	185	—	(169)	60,627
Net assets, July 1, 2011	**153**	**2,030,435 ***	**298,836 ***	**144,486**	**988**	**1**	**3,663 ***	**2,854,535**
Net assets, June 30, 2012	**$ 136**	**$ 2,050,840**	**$ 332,631**	**$ 146,118**	**$ 1,173**	**$ 1**	**$ 3,494**	**$ 2,915,162**

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Statistical Section

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Financial Trends

Financial trend schedules contain trend information to help the reader understand how the State's financial performance and well-being have changed over time. This section includes the following financial trend schedules:

Schedule of Net Assets by Component
Schedule of Changes in Net Assets
Schedule of Fund Balances-Governmental Funds
Schedule of Changes in Fund Balances-Governmental Funds

Sources: The information in the following schedules is derived from the State's Comprehensive Annual Financial Reports.

Schedule of Net Assets by Component

For the Past Ten Fiscal Years
(accrual basis of accounting, amounts in thousands)

	2003	2004	2005	2006	2007	2008	2009	2010	2011 [3]	2012
Governmental activities										
Invested in capital assets,										
net of related debt [1]	$ 14,180,116	$ 77,734,545	$ 79,579,676	$ 83,489,137	$ 81,352,744	$ 84,255,048	$ 83,285,184	$ 84,085,632	$ 85,460,957	$ 80,768,527
Restricted	5,230,983	7,126,013	7,631,057	8,431,279	10,543,602	10,148,648	8,391,814	14,987,867	27,865,821	24,871,510
Unrestricted [2]	(43,927,987)	(52,897,395)	(52,631,090)	(54,710,847)	(56,519,478)	(69,346,950)	(86,302,434)	(103,272,097)	(123,783,314)	(123,897,753)
Total governmental activities										
net assets	**$ (24,516,888)**	**$ 31,963,163**	**$ 34,579,643**	**$ 37,209,569**	**$ 35,376,868**	**$ 25,056,746**	**$ 5,374,564**	**$ (4,198,598)**	**$ (10,456,536)**	**$ (18,257,716)**
Business-type activities										
Invested in capital assets,										
net of related debt	$ 1,405,232	$ 1,058,136	$ 836,524	$ 818,405	$ 208,268	$ 49,510	$ (130,634)	$ 89,334	$ 1,382,957	$ 1,561,258
Nonexpendable	—	—	—	—	—	—	—	—	21,812	21,584
Restricted	7,925,726	5,667,623	7,235,373	8,722,865	8,574,932	6,853,621	3,855,051	3,404,682	3,615,945	4,571,036
Unrestricted	(125,809)	1,316,631	1,566,246	1,801,304	2,430,492	3,009,297	717,740	(4,250,609)	(4,214,494)	(3,346,849)
Total business-type activities										
net assets	**$ 9,205,149**	**$ 8,042,390**	**$ 9,638,143**	**$ 11,342,574**	**$ 11,213,692**	**$ 9,912,428**	**$ 4,442,157**	**$ (756,593)**	**$ 806,220**	**$ 2,807,029**
Primary government										
Invested in capital assets,										
net of related debt [1]	$ 15,585,348	$ 78,792,681	$ 80,416,200	$ 84,307,542	$ 81,561,012	$ 84,304,558	$ 83,154,550	$ 84,174,966	$ 86,843,914	$ 82,329,785
Nonexpendable	—	—	—	—	—	—	—	—	21,812	21,584
Restricted	13,156,709	12,793,636	14,866,430	17,154,144	19,118,534	17,002,269	12,246,865	18,392,549	31,481,766	29,442,546
Unrestricted [2]	(44,053,796)	(51,580,764)	(51,064,844)	(52,909,543)	(54,088,986)	(66,337,653)	(85,584,694)	(107,522,706)	(127,997,808)	(127,244,602)
Total primary government										
net assets	**$ (15,311,739)**	**$ 40,005,553**	**$ 44,217,786**	**$ 48,552,143**	**$ 46,590,560**	**$ 34,969,174**	**$ 9,816,721**	**$ (4,955,191)**	**$ (9,650,316)**	**$ (15,450,687)**

[1] In fiscal year 2004, all infrastructure assets were included in the financial statements for the first time.

[2] Unrestricted net assets reflect a negative balance because of outstanding bonded debt issued to build capital assets for school districts and other local governmental entities. In fiscal year 2003, unrestricted net assets decreased primarily as a result of lower-than-expected general revenues caused by the near-stagnant economy and the State's continued structural budget deficits.

[3] In fiscal year 2011, the net assets of the governmental funds and enterprise funds changed primarily as a result of the reclassification of $1.2 billion beginning net assets of the California State University Fund from governmental activities.

Schedule of Changes in Net Assets

For the Past Ten Fiscal Years
(accrual basis of accounting, amounts in thousands)

	2003	2004	2005	2006	2007	2008	2009	2010	2011[5]	2012
Governmental activities										
Expenses										
General government [1]	$ 12,522,222	$ 11,017,624	$ 10,965,932	$ 10,379,122	$ 14,261,590	$ 13,187,080	$ 13,895,948	$ 12,454,969	$ 13,520,557	$ 14,411,737
Education	51,446,964	51,457,841	53,152,986	62,652,997	61,542,105	65,130,420	65,643,486	61,764,385	56,486,944	51,288,647
Health and human services	59,141,547	60,020,524	62,016,344	65,763,380	69,979,980	74,309,784	79,077,015	80,799,454	92,475,364	89,939,730
Resources	3,430,853	4,436,309	4,160,949	4,161,814	5,316,769	6,333,252	5,626,359	6,019,104	5,853,278	5,950,635
State and consumer services	437,134	1,029,460	1,038,327	595,602	1,214,740	1,129,063	1,518,402	979,962	1,405,019	1,241,269
Business and transportation	7,514,723	7,579,221	7,142,209	8,809,236	9,763,200	13,068,043	11,980,315	14,155,767	11,119,644	13,719,927
Correctional programs	6,681,270	6,214,862	6,611,219	7,299,124	8,945,325	10,504,182	10,835,203	10,310,229	10,295,564	10,343,574
Interest on long-term debt	1,780,748	1,737,696	2,408,246	2,893,537	2,596,316	4,184,631	3,801,283	4,146,259	4,377,064	4,365,181
Total expenses	**142,955,461**	**143,493,537**	**147,496,212**	**162,554,812**	**173,620,025**	**187,846,455**	**192,378,011**	**190,630,129**	**195,533,434**	**191,260,700**
Program revenues										
Charges for services:										
General government [1]	1,138,617	4,386,968	4,733,155	4,620,030	4,495,166	4,404,126	4,781,126	4,918,132	5,057,082	6,841,334
Education	2,710,369	2,631,859	2,936,693	3,360,919	2,689,906	3,343,205	3,483,072	4,231,692	110,423	81,212
Health and human services	4,867,578	1,751,752	3,280,970	4,554,673	4,751,011	5,191,548	4,256,069	3,769,794	8,471,261	4,940,650
Resources	1,189,327	1,544,260	1,934,532	2,198,886	2,110,593	2,648,952	2,578,738	2,597,712	2,797,264	2,866,232
State and consumer services	454,051	496,561	601,322	640,088	704,512	692,348	658,486	654,034	660,196	724,222
Business and transportation	2,759,007	2,295,747	2,541,072	3,776,098	4,040,268	3,987,958	4,210,461	5,420,261	4,010,433	4,342,668
Correctional programs	12,406	13,915	12,354	37,203	30,821	27,702	21,592	18,097	14,981	16,757
Operating grants/contributions	38,409,125	41,072,413	41,135,441	42,254,065	43,440,102	45,849,413	57,828,622	75,469,783	67,849,215	58,777,006
Capital grants/contributions	1,302,376	916,961	1,090,419	1,272,506	1,164,526	1,207,101	1,142,691	962,388	1,272,326	2,193,189
Total program revenues	**52,842,856**	**55,110,436**	**58,265,958**	**62,714,468**	**63,426,905**	**67,352,353**	**78,960,857**	**98,041,893**	**90,243,181**	**80,783,270**
Total governmental activities net program expenses	**(90,112,605)**	**(88,383,101)**	**(89,230,254)**	**(99,840,344)**	**(110,193,120)**	**(120,494,102)**	**(113,417,154)**	**(92,588,236)**	**(105,290,253)**	**(110,477,430)**
General revenues and other changes in net assets										
General revenues:										
Personal income taxes	32,529,941	37,926,550	42,504,352	51,251,266	53,272,229	55,355,266	45,709,344	43,866,857	51,719,107	54,368,347
Sales and use taxes	26,930,469	28,651,768	32,488,563	34,162,177	35,427,013	34,856,824	31,244,979	33,784,106	33,521,221	31,216,438
Corporation taxes	6,489,209	9,027,816	11,174,937	10,735,792	11,211,267	11,207,468	10,741,140	9,472,611	9,384,416	8,629,935
Motor vehicle excise taxes [6]	—	—	—	—	—	—	—	—	—	5,263,435
Insurance taxes	1,886,312	2,119,315	2,231,060	2,212,916	2,165,567	2,190,870	2,063,555	2,235,251	2,311,880	2,408,473
Other taxes [6]	2,897,469	2,329,987	2,507,729	2,099,075	5,939,890	5,594,970	5,264,685	5,234,531	7,768,010	2,368,748
Investment and interest	371,935	155,430	289,363	504,655	730,066	639,059	175,584	114,933	62,946	72,237
Escheat [2]	—	598,681	525,897	291,549	334,002	282,287	315,642	149,996	229,146	372,215
Other	5,718	87,663	—	—	—	—	—	—	—	—
Transfers	66,630	32,965	27,727	23,259	29,855	54,994	21,015	(13,441,875)	(3,251,598)	(2,031,032)
Nonoperating grants and gifts	575,906	—	—	—	—	—	—	—	—	—
Special item [3]	—	—	—	1,218,311	—	—	—	—	—	—
Total general revenues and other changes in net assets	**71,753,589**	**80,930,175**	**91,749,628**	**102,499,000**	**109,109,889**	**110,181,738**	**95,535,944**	**81,416,410**	**101,745,128**	**102,668,796**
Total governmental activities change in net assets	**$ (18,359,016)**	**$ (7,452,926)**	**$ 2,519,374**	**$ 2,658,656**	**$ (1,083,231)**	**$ (10,312,364)**	**$ (17,881,210)**	**$ (11,171,826)**	**$ (3,545,125)**	**$ (7,808,634)**

(continued)

[1] Tax relief program expenses and revenue reported separately prior to fiscal year 2009 are now included with general government.
[2] Prior to fiscal year 2004, escheat revenue was recorded in the Unclaimed Property private purpose trust fund.
[3] In fiscal year 2006, a related organization assumed debt on the State's behalf.
[4] Since fiscal year 2004, the Public Employees' Benefits Fund is reported as a discretely presented component unit.
[5] In fiscal year 2011, the California State University Fund was reclassified from governmental to enterprise funds.
[6] Motor vehicle excise taxes, reported separately in fiscal year 2012 due to material increases, were included with "Other taxes" in prior years.

Schedule of Changes in Net Assets (continued)

For the Past Ten Fiscal Years
(accrual basis of accounting, amounts in thousands)

	2003	2004	2005	2006	2007	2008	2009	2010	2011 [5]	2012
Business-type activities										
Expenses										
Electric Power	$ 4,985,000	$ 5,203,000	$ 5,655,000	$ 5,342,000	$ 5,865,000	$ 5,362,000	$ 4,560,000	$ 3,908,000	$ 2,317,000	$ 915,000
Water Resources	739,819	731,099	731,393	949,691	951,590	1,009,214	914,837	1,069,662	1,115,793	1,047,574
Public Building Construction	347,898	296,502	299,900	334,094	334,777	371,904	420,465	494,332	390,173	403,853
State Lottery	2,791,144	3,347,644	3,493,984	3,911,717	3,470,615	3,173,060	3,069,365	3,166,447	3,507,524	4,431,709
Unemployment Programs	10,651,949	10,271,962	8,939,654	8,584,521	9,136,218	10,622,582	19,609,068	29,614,598	25,619,138	21,111,658
California State University [5]	—	—	—	—	—	—	—	—	5,851,355	6,181,397
High Technology Education	37,727	37,261	33,690	30,871	22,704	16,916	15,590	15,025	9,590	7,778
Toll Facilities	21,796	18,968	20,861	18,265	—	—	—	—	—	—
State University Dormitory Building Maintenance and Equipment	220,334	426,187	449,080	491,914	844,798	699,018	486,349	856,106	—	—
State Water Pollution Control Revolving	14,970	15,131	14,638	20,427	12,702	13,056	12,261	16,893	10,953	8,780
School Building Aid	—	—	—	—	—	—	—	—	—	—
Housing Loan	206,864	173,629	142,085	138,988	127,206	132,101	130,777	122,114	104,667	89,570
Public Employees' Benefits [4]	1,694,231	—	—	—	—	—	—	—	—	—
Other enterprise programs	103,974	98,654	86,612	113,976	141,859	122,921	147,441	130,329	118,006	78,601
Total expenses	**21,815,706**	**20,620,037**	**19,866,897**	**19,936,464**	**20,907,469**	**21,522,772**	**29,366,153**	**39,393,506**	**39,044,199**	**34,275,920**
Program revenues										
Charges for services:										
Electric Power	4,985,000	5,203,000	5,655,000	5,342,000	5,865,000	5,362,000	4,560,000	3,908,000	2,317,000	915,000
Water Resources	693,566	714,647	750,282	949,691	951,590	1,009,214	914,837	1,069,662	1,115,793	1,047,574
Public Building Construction	317,741	307,910	315,718	384,442	396,895	384,816	366,151	430,069	456,467	428,260
State Lottery	2,936,030	3,143,408	3,512,126	3,740,041	3,461,699	3,242,828	3,051,320	3,145,259	3,484,689	4,484,291
Unemployment Programs	8,230,208	9,631,916	10,459,688	10,263,447	9,017,969	8,829,018	14,273,975	11,255,098	24,678,783	21,947,781
California State University [5]	—	—	—	—	—	—	—	—	2,505,545	2,915,123
High Technology Education	44,268	34,052	36,737	26,508	22,966	20,600	15,975	13,015	10,498	8,452
Toll Facilities	172	121	66	21	—	—	—	—	—	—
State University Dormitory Building Maintenance and Equipment	284,719	250,208	395,396	512,231	554,851	640,208	811,454	599,571	—	—
State Water Pollution Control Revolving	54,201	51,687	55,218	64,740	78,564	71,404	59,923	56,121	55,957	57,540
Housing Loan	189,812	143,805	121,063	127,733	130,293	130,139	109,636	85,321	89,224	84,830
Public Employees' Benefits [4]	2,066,530	—	—	—	—	—	—	—	—	—
Other enterprise programs	134,544	114,081	115,901	129,048	134,018	137,476	124,952	98,957	105,676	74,693
Operating grants/contributions	762	—	—	—	—	—	—	—	1,216,808	1,249,995
Capital grants/contributions	145,341	47,528	73,182	56,942	182,989	189,064	71,882	91,808	86,272	106,057
Total program revenues	**20,082,894**	**19,642,363**	**21,490,377**	**21,596,844**	**20,796,834**	**20,016,767**	**24,360,105**	**20,752,881**	**36,122,712**	**33,319,596**
Total business-type activities net program revenues (expenses)	**(1,732,812)**	**(977,674)**	**1,623,480**	**1,660,380**	**(110,635)**	**(1,506,005)**	**(5,006,048)**	**(18,640,625)**	**(2,921,487)**	**(956,324)**
Other changes in net assets										
Transfers	(66,630)	(32,965)	(27,727)	(23,259)	(29,855)	(54,994)	(21,015)	13,441,875	3,251,598	2,031,032
Total business-type activities changes in net assets	**$ (1,799,442)**	**$ (1,010,639)**	**$ 1,595,753**	**$ 1,637,121**	**$ (140,490)**	**$ (1,560,999)**	**$ (5,027,063)**	**$ (5,198,750)**	**$ 330,111**	**$ 1,074,708**
Total primary government changes in net assets	**$ (20,158,458)**	**$ (8,463,565)**	**$ 4,115,127**	**$ 4,295,777**	**$ (1,223,721)**	**$ (11,873,363)**	**$ (22,908,273)**	**$ (16,370,576)**	**$ (3,215,014)**	**$ (6,733,926)**

(concluded)

Schedule of Fund Balances - Governmental Funds

For the Past Ten Fiscal Years
(modified accrual basis of accounting, amounts in thousands)

	2003	2004	2005	2006	2007	2008	2009	2010	2011 [1]	2012
General Fund										
Reserved	$ 2,051,790	$ 1,691,034	$ 1,597,085	$ 1,999,953	$ 2,596,537	$ 2,113,149	$ 2,260,504	$ 1,320,782	$ —	$ —
Unreserved	(15,419,588)	(3,231,734)	(1,410,228)	672,862	(4,504,075)	(6,282,018)	(18,344,400)	(20,929,640)	—	—
Nonspendable	—	—	—	—	—	—	—	—	148,019	7,614
Restricted	—	—	—	—	—	—	—	—	156,496	80,849
Committed	—	—	—	—	—	—	—	—	29,850	19,600
Unassigned	—	—	—	—	—	—	—	—	(20,273,606)	(23,069,351)
Total General Fund	**$ (13,367,798)**	**$ (1,540,700)**	**$ 186,857**	**$ 2,672,815**	**$ (1,907,538)**	**$ (4,168,869)**	**$ (16,083,896)**	**$ (19,608,858)**	**$ (19,939,241)**	**$ (22,961,288)**
All other governmental funds										
Reserved	$ 15,080,420	$ 14,625,056	$ 14,924,365	$ 16,198,481	$ 21,955,300	$ 19,512,083	$ 27,465,566	$ 41,087,578	$ —	$ —
Unreserved, reported in:										
Special revenue funds	(3,563,435)	(1,343,432)	(329,018)	(806,558)	(914,843)	(1,817,290)	(3,539,254)	(8,554,611)	—	—
Capital projects funds	(225,697)	(226,919)	(403,106)	(882,550)	(1,128,608)	(837,349)	686,113	838,879	—	—
Nonspendable	—	—	—	—	—	—	—	—	39,448	—
Restricted	—	—	—	—	—	—	—	—	27,709,325	24,790,661
Committed	—	—	—	—	—	—	—	—	2,701,702	2,109,089
Assigned	—	—	—	—	—	—	—	—	268,888	3
Unassigned	—	—	—	—	—	—	—	—	(21,847)	(103,177)
Total all other governmental funds	**$ 11,291,288**	**$ 13,054,705**	**$ 14,192,241**	**$ 14,509,373**	**$ 19,911,849**	**$ 16,857,444**	**$ 24,612,425**	**$ 33,371,846**	**$ 30,697,516**	**$ 26,796,576**

Note: In fiscal year 2011, the State implemented GASB Statement No. 54, which significantly changed the fund balance classifications. Fiscal year 2011 fund balance classifications are not comparable to prior years' classifications.

[1] In fiscal year 2011, the California State University Fund, which consisted of $1.2 billion beginning fund balance, was reclassified from governmental to enterprise funds.

Schedule of Changes in Fund Balances - Governmental Funds

For the Past Ten Fiscal Years

(modified accrual basis of accounting, amounts in thousands)

	2003	2004	2005	2006	2007	2008	2009	2010	2011 [4]	2012
Revenues										
Personal income taxes	$ 32,661,274	$ 37,722,839	$ 42,595,352	$ 50,798,418	$ 53,289,524	$ 55,197,062	$ 45,482,726	$ 43,884,798	$ 51,691,153	$ 54,442,733
Sales and use taxes	26,945,705	28,685,600	32,201,242	34,300,402	35,451,311	34,764,651	31,425,308	33,696,412	33,488,805	31,205,183
Corporation taxes	6,861,200	8,379,316	11,191,937	10,709,792	11,210,267	11,201,468	10,738,140	9,467,611	9,433,416	8,609,935
Motor vehicle excise taxes [5]	—	—	—	—	—	—	—	—	—	5,263,435
Insurance taxes	1,886,312	2,119,315	2,231,060	2,212,916	2,165,567	2,190,870	2,063,555	2,235,251	2,311,881	2,408,473
Other taxes [5]	2,745,987	2,422,326	2,482,335	2,367,670	5,800,027	5,675,894	5,245,416	5,235,801	7,829,662	2,306,717
Intergovernmental	41,934,230	42,918,982	42,933,381	45,466,185	46,442,519	48,969,006	61,053,091	79,183,291	69,160,916	62,235,671
Licenses and permits	2,995,740	3,469,741	4,954,025	5,125,223	5,266,142	5,326,854	5,805,369	6,900,747	6,767,437	6,600,001
Charges for services	907,481	919,280	949,147	1,002,410	911,387	1,025,569	986,773	974,181	1,008,647	728,980
Fees and penalties	4,184,896	4,662,893	5,388,332	6,008,306	6,093,948	6,800,633	6,204,288	7,291,894	10,262,387	8,315,452
Investment and interest	614,240	377,694	576,097	1,058,119	1,555,202	1,591,025	1,108,058	281,881	212,116	175,898
Escheat [1]	—	598,681	525,897	291,549	334,002	282,287	315,642	149,996	229,146	372,215
Other	3,043,575	2,999,820	3,755,426	4,518,621	3,732,591	4,265,010	3,933,035	3,555,282	2,941,484	2,542,505
Total revenues	**124,780,640**	**135,276,487**	**149,784,231**	**163,859,611**	**172,252,487**	**177,290,329**	**174,361,401**	**192,857,145**	**195,337,050**	**185,207,198**
Expenditures										
General government [2]	11,940,555	11,012,217	10,647,740	9,394,308	14,062,920	12,745,860	13,075,901	12,036,503	12,997,651	13,484,305
Education	50,744,179	49,526,563	52,242,779	59,768,677	61,103,008	64,367,612	63,857,066	59,229,726	55,547,139	50,362,337
Health and human services	58,996,212	59,820,274	62,015,628	65,968,433	70,157,806	74,102,708	78,731,136	80,321,470	91,941,309	89,473,391
Resources	3,368,473	3,686,083	4,077,102	4,296,715	5,191,078	6,123,609	5,209,684	5,456,904	5,254,757	5,358,575
State and consumer services	940,665	935,427	973,466	1,111,128	1,214,752	1,239,397	1,266,068	1,088,494	1,183,536	1,219,499
Business and transportation	8,917,181	9,119,237	8,556,618	10,370,589	11,485,069	14,747,506	13,803,518	14,083,790	13,181,390	15,684,611
Correctional programs	5,841,103	6,236,725	6,658,614	7,552,790	9,030,299	9,972,507	9,883,593	9,553,992	9,253,791	9,805,846
Capital outlay	1,666,932	1,245,871	1,534,150	2,128,050	1,345,021	1,724,074	1,432,376	1,691,674	1,128,011	1,296,413
Debt service:										
Bond and commercial paper retirement	4,068,685	1,384,595	3,672,119	6,375,607	5,691,791	8,970,533	5,131,600	3,259,203	3,118,906	4,435,992
Interest and fiscal charges	1,803,378	1,686,776	2,243,764	3,135,763	2,881,849	3,394,433	3,584,358	4,022,922	4,355,110	4,453,643
Total expenditures	**148,287,363**	**144,653,768**	**152,621,980**	**170,102,060**	**182,163,593**	**197,388,239**	**195,975,300**	**190,744,678**	**197,961,600**	**195,574,612**
Excess (deficiency) of revenues over (under) expenditures	(23,506,723)	(9,377,281)	(2,837,749)	(6,242,449)	(9,911,106)	(20,097,910)	(21,613,899)	2,112,467	(2,624,550)	(10,367,414)
Other financing sources (uses)										
General obligation bonds and commercial paper issued	9,062,000	18,385,480	5,058,339	7,750,500	9,040,500	14,193,760	16,764,085	12,039,472	4,525,000	4,165,515
Revenue bonds issued	3,000,000	4,347,570	99,250	—	—	—	97,635	—	—	—
Refunding/remarketing debt issued	275,000	1,183,875	1,937,430	5,086,944	9,098,376	1,798,685	—	4,176,050	—	4,300,555
Payment to refund/remarket long-term debt	(275,000)	(1,183,875)	(1,937,430)	(4,561,944)	(7,840,621)	(1,844,006)	—	(4,221,604)	—	(4,508,834)
Premium on bonds issued [3]	—	—	—	—	—	295,439	126,107	267,980	32,607	667,931
Proceeds from loans	—	—	—	—	—	—	—	1,996,737	35,538	—
Capital leases [4]	515,996	85,390	414,738	748,037	178,936	268,686	364,813	811,816	204,631	528,804
Transfers in	8,253,164	18,475,032	4,580,201	5,137,895	9,311,462	11,414,132	6,776,476	6,548,447	8,705,229	5,523,644
Transfers out	(8,070,387)	(18,428,564)	(4,546,792)	(5,113,107)	(9,242,771)	(11,336,764)	(6,689,658)	(19,952,766)	(11,902,800)	(7,499,131)
Total other financing sources	**12,760,773**	**22,864,908**	**5,605,736**	**9,048,325**	**10,545,882**	**14,789,932**	**17,439,458**	**1,666,132**	**1,600,205**	**3,178,484**
Net change in fund balances	**$ (10,745,950)**	**$ 13,487,627**	**$ 2,767,987**	**$ 2,805,876**	**$ 634,776**	**$ (5,307,978)**	**$ (4,174,441)**	**$ 3,778,599**	**$ (1,024,345)**	**$ (7,188,930)**
Debt service as a percentage of noncapital expenditures	4.0%	2.2%	3.9%	5.7%	4.8%	6.4%	4.5%	3.9%	3.8%	4.6%

[1] Prior to fiscal year 2004, escheat revenue was recorded in the Unclaimed Property private purpose trust fund.
[2] Tax relief program expenditures reported separately prior to fiscal year 2009 are now included with general government.
[3] Prior to fiscal year 2008, premiums on bonds issued were netted against debt service interest and fiscal charges.
[4] In fiscal year 2011, the California State University Fund was reclassified from governmental to enterprise funds.
[5] Motor vehicle excise taxes, reported separately in fiscal year 2012 due to material increases, were included with "Other taxes" in prior years.

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Revenue Capacity

Revenue Capacity schedules contain information to help the reader assess the State's capacity to raise revenue and the sources of that revenue. This section includes the following revenue capacity schedules:

Schedule of Revenue Base
Schedule of Revenue Payers by Industry/Income Level
Schedule of Personal Income Tax Rates

Schedule of Revenue Base

For Calendar Years 2002 - 2011
(amounts in thousands)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Personal Income by Industry [1]										
Farm earnings	$ 8,955,752	$ 10,150,317	$ 12,280,621	$ 10,768,206	$ 10,717,550	$ 12,956,636	$ 11,303,521	$ 12,481,227	$ 13,088,799	$ 15,705,158
Forestry, fishing, and other natural resources	4,692,043	4,953,075	5,423,645	5,525,123	6,113,265	6,315,641	6,284,353	6,308,082	6,871,774	7,404,711
Mining	2,281,871	2,622,108	3,181,084	3,377,669	4,079,889	4,149,812	5,941,050	3,907,626	4,693,094	5,104,667
Construction and utilities	68,531,509	72,753,415	81,718,323	88,489,742	95,449,922	92,210,578	81,618,989	68,891,878	63,953,534	65,583,631
Manufacturing	110,571,372	111,918,656	116,471,620	120,967,397	125,552,449	126,898,654	125,470,277	117,160,391	119,620,654	124,609,921
Wholesale trade	44,487,228	46,030,247	48,890,179	52,746,931	57,076,834	61,044,879	58,515,183	53,080,802	54,538,312	57,947,537
Retail trade	66,440,439	69,598,467	72,126,176	75,246,169	77,120,391	78,294,262	70,184,820	67,329,718	68,697,780	72,148,719
Transportation and warehousing	27,642,083	28,252,985	30,593,660	31,323,480	32,479,826	34,039,990	33,014,464	31,241,843	32,225,363	33,579,370
Information, finance, and insurance	109,810,563	114,338,117	122,791,650	129,547,463	135,194,422	137,224,346	134,631,728	128,854,247	133,052,249	139,962,102
Real estate	27,827,645	29,904,716	31,619,196	33,359,788	32,636,932	26,843,294	25,821,874	20,777,590	21,774,611	22,502,403
Services	317,717,940	329,697,856	352,185,406	370,221,265	398,268,992	418,477,513	436,256,054	417,085,168	433,122,006	457,927,581
Federal, civilian	19,808,005	20,322,392	21,782,393	22,656,661	23,106,175	23,799,175	24,605,108	25,753,903	28,272,421	28,478,725
Military	11,018,816	12,601,587	13,970,944	14,527,841	15,278,175	16,291,470	17,748,164	19,203,786	2,090,433	20,100,397
State and local government	115,002,719	123,256,592	128,409,947	134,562,236	142,082,695	152,816,128	160,289,461	158,537,217	156,545,010	157,643,522
Other [2]	252,559,551	256,580,472	270,782,509	294,341,042	340,375,871	375,037,756	419,012,797	386,063,182	407,663,154	436,439,928
Total personal income	**$ 1,187,347,536**	**$ 1,232,981,002**	**$ 1,312,227,353**	**$ 1,387,661,013**	**$ 1,495,533,388**	**$ 1,566,400,134**	**$ 1,610,697,843**	**$ 1,516,676,660**	**$ 1,546,209,194**	**$ 1,645,138,372**
Average effective rate [3]	4.5%	4.3%	4.5%	4.6%	5.1%	5.0%	5.7%	5.2%	4.7%	5.3%

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

(continued)

[1] 2008-2010 information updated.
[2] Other personal income includes dividends, interest, rental income, residence adjustment, government transfers for individuals, and deductions for social insurance.
[3] The total direct rate for personal income is not available. The average effective rate equals personal income tax revenue divided by adjusted gross income.

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Schedule of Revenue Base (continued)

For Calendar Years 2002 - 2010
(amounts in thousands)

	2002	2003	2004	2005	2006	2007	2008	2009 [1]	2010	2011 [6]
Taxable Sales by Industry										
Retail										
Apparel	$ 14,029,200	$ 15,179,710	$ 16,957,137	$ 18,712,125	$ 19,829,416	$ 20,855,890	$ 22,120,094	$ —	$ —	$ —
General merchandise	48,486,891	50,550,818	53,939,532	56,787,153	59,264,894	59,897,350	56,425,472	—	—	—
Specialty	43,539,120	45,191,191	48,961,996	52,376,758	54,695,680	34,122,471	27,380,740	—	—	—
Food	18,951,412	19,407,823	19,825,771	21,128,469	21,864,179	22,461,059	21,504,308	—	—	—
Restaurant and bars	38,079,830	40,049,699	43,275,038	46,412,847	49,229,418	51,658,575	52,051,404	—	—	—
Household	13,983,287	15,104,217	16,405,347	17,388,704	17,383,449	16,720,852	17,199,187	—	—	—
Building materials	25,816,009	28,200,869	34,154,543	36,152,218	36,163,326	32,656,324	26,647,007	—	—	—
Automotive	87,749,497	94,766,776	103,528,856	112,167,922	115,154,535	117,864,918	106,555,420	—	—	—
Other	10,977,060	11,765,951	13,124,468	14,681,929	15,481,675	30,787,663	27,434,795	—	—	—
Business and personal service	21,812,699	21,648,470	22,306,787	23,090,910	23,650,322	23,355,672	22,045,958	—	—	—
All other	117,525,089	118,230,944	127,597,308	138,005,393	146,935,543	150,669,375	152,289,155	—	—	—
Total taxable sales	**$ 440,950,094**	**$ 460,096,468**	**$ 500,076,783**	**$ 536,904,428**	**$ 559,652,437**	**$ 561,050,149**	**$ 531,653,540**	**$ —**	**$ —**	**$ —**
Direct sales tax rate [2]	5.00%	5.00%	5.25% [3]	5.25%	5.25%	5.25%	5.25%	—	—	—
Taxable Sales by Industry (Using NAICS Codes) [1]										
Retail and Food Services										
Motor vehicle and parts dealers	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ 44,488,198	$ 47,355,568	$ —
Furniture and home furnishings stores	—	—	—	—	—	—	—	8,481,020	8,742,984	—
Electronics and appliance stores	—	—	—	—	—	—	—	13,384,338	13,749,019	—
Building materials, garden equipment and supplies	—	—	—	—	—	—	—	23,978,313	24,750,865	—
Food and beverage	—	—	—	—	—	—	—	22,546,285	22,787,407	—
Health and personal care stores	—	—	—	—	—	—	—	9,244,958	9,525,910	—
Gasoline stations	—	—	—	—	—	—	—	39,077,835	45,226,491	—
Clothing and clothing accessories stores	—	—	—	—	—	—	—	25,641,272	27,267,430	—
Sporting goods, hobby, book and music stores	—	—	—	—	—	—	—	10,294,172	10,365,480	—
General merchandise stores	—	—	—	—	—	—	—	44,921,639	46,323,804	—
Miscellaneous store retailers	—	—	—	—	—	—	—	16,385,169	16,569,690	—
Nonstore retailers	—	—	—	—	—	—	—	2,849,864	2,830,615	—
Food services and drinking places	—	—	—	—	—	—	—	49,921,543	51,282,453	—
All other outlets	—	—	—	—	—	—	—	145,278,339	150,570,269	—
Total taxable sales	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**	**$ 456,492,945**	**$ 477,347,985**	**$ —**
Direct sales tax rate [2]	—	—	—	—	—	—	—	6.25% [4]	6.25%	4.19% [5]

Source: California State Board of Equalization (BOE)

(concluded)

[1] Due to BOE's conversion from business coding to North American Industry Classification System (NAICS) coding for the reporting of Taxable Sales by Industry, industry level data for 2009 and forward is not comparable to that reported for prior years. The NAICS conversion process for over one million permit holders was not completed until the end of 2008, so 2009 was the first year BOE used the new format with NAICS codes.

[2] The direct sales tax rate used is the state tax rate that provides revenue to the State's General Fund and debt service fund. It does not include the 1% local tax rate that is allocated to cities and counties.

[3] Rate change was effective on July 1, 2004.

[4] Rate change was effective on April 1, 2009.

[5] Rate change was effective on July 1, 2011.

[6] Prior year CAFR data used; 2011 data unavailable from BOE.

Schedule of Revenue Payers by Industry/Income Level

For Calendar Years 2002 and 2010

Personal Income Tax Filers and Liability by Income Level[1]

	2002 Number of Filers	2002 Percent of Total	2002 Tax Liability[2]	2002 Percent of Total
Under $ 5,000	1,120,188	8.3 %	$ 3,168	0.0 %
5,000 to 9,999	1,153,241	8.5	10,889	0.0
10,000 to 14,999	1,197,367	8.8	25,083	0.1
15,000 to 19,999	1,132,723	8.3	66,678	0.2
20,000 to 24,999	1,053,782	7.8	144,996	0.5
25,000 to 29,999	908,979	6.7	210,416	0.7
30,000 to 39,999	1,472,824	10.8	649,726	2.3
40,000 to 49,999	1,187,776	8.7	904,498	3.2
50,000 to 99,999	2,858,635	21.1	5,621,987	19.7
$100,000 and over	1,490,068	11.0	20,930,617	73.3
Total	**13,575,583**	**100.0 %**	**$ 28,568,058**	**100.0 %**

	2010 Number of Filers	2010 Percent of Total	2010 Tax Liability[2]	2010 Percent of Total
Under $ 5,000	1,221,731	8.3 %	$ 8,720	0.0 %
5,000 to 9,999	1,153,272	7.8	8,591	0.0
10,000 to 14,999	1,275,013	8.6	18,875	0.0
15,000 to 19,999	1,248,312	8.4	53,407	0.1
20,000 to 24,999	1,068,572	7.2	109,802	0.3
25,000 to 29,999	913,655	6.2	172,999	0.4
30,000 to 39,999	1,480,970	10.0	565,360	1.3
40,000 to 49,999	1,143,984	7.7	838,311	1.9
50,000 to 99,999	3,066,034	20.7	6,154,040	13.8
$100,000 and over	2,242,883	15.1	36,542,341	82.2
Total	**14,814,426**	**100.0 %**	**$ 44,472,446**	**100.0 %**

Source: California Franchise Tax Board

[1] For California resident tax returns. Calendar year 2010 is the most recent year for which data are available.
[2] Amounts in thousands.

For Calendar Years 2001 and 2010[4]

Sales Tax Permits and Tax Liability by Industry

	2001 (Using Business Codes)[1] Number of Permits[2]	Percent of Total	Tax Liability[4]	Percent of Total
Retail				
Apparel	31,576	3.3 %	$ 635,951	3.0 %
General merchandise	12,260	1.3	2,241,573	10.7
Specialty	165,266	17.0	2,088,884	10.0
Food	24,323	2.5	894,120	4.3
Restaurant and bars	76,150	7.8	1,750,337	8.4
Household	26,945	2.8	633,278	3.0
Building materials	9,586	1.0	1,149,923	5.5
Automotive	32,088	3.3	4,056,542	19.3
Other	20,908	2.2	512,326	2.4
Business and personal service	102,798	10.6	1,056,439	5.0
All other	467,679	48.2	5,952,710	28.4
Total	**969,579**	**100.0 %**	**$ 20,972,083**	**100.0 %**

	2010 (Using NAICS Codes)[1] Number of Permits[2]	Percent of Total	Tax Liability[3, 4]	Percent of Total
Retail and Food Services				
Motor vehicle and parts dealers	32,727	3.4 %	$ 2,959,723	9.9 %
Furniture and home furnishings stores	18,252	1.9	546,437	1.8
Electronics and appliance stores	21,984	2.3	859,314	2.9
Building materials, garden equipment & supplies	17,035	1.7	1,546,929	5.2
Food and beverage	29,900	3.1	1,424,213	4.8
Health and personal care stores	21,188	2.2	595,369	2.0
Gasoline stations	10,096	1.0	2,826,656	9.5
Clothing and clothing accessories stores	65,734	6.7	1,704,214	5.7
Sporting goods, hobby, book & music stores	27,724	2.8	647,842	2.2
General merchandise stores	15,684	1.6	2,895,238	9.7
Miscellaneous store retailers	118,369	12.1	1,035,606	3.5
Nonstore retailers	178,056	18.2	176,913	0.6
Food services and drinking places	92,370	9.4	3,205,153	10.7
All other outlets	328,928	33.6	9,410,642	31.5
Total	**978,047**	**100.0 %**	**$ 29,834,249**	**100.0 %**

Source: State Board of Equalization (BOE)

[1] Due to BOE's conversion from business coding to North American Industry Classification System (NAICS) coding for the reporting of Taxable Sales by Industry, industry level data for 2009 and forward is not comparable to that reported for prior years. The NAICS conversion process for over one million permit holders was not completed until the end of 2008, so 2009 was the first year BOE used the new format with NAICS codes.
[2] As of July 1.
[3] Calculated by multiplying the taxable sales by industry shown on page 279 by the direct sales tax rate. Amounts in thousands.
[4] Prior year CAFR data used. 2011 data unavailable from BOE.

Schedule of Personal Income Tax Rates

For Calendar Years 2002 - 2011

Married Filing Jointly and Surviving Spouse

Tax Rate	2002 Income Level	2003 Income Level	2004 Income Level	2005[1] Income Level	2006 Income Level	2007 Income Level	2008 Income Level	2009[2] Income Level	2010[2] Income Level	2011 Income Level
1.0	Up to $11,668	Up to $11,924	Up to $12,294	Up to $12,638	Up to $13,244	Up to $13,654	Up to $14,336	Up to $14,120	Up to $14,248	Up to $14,632
2.0	11,668 – 27,658	11,924 – 28,266	12,294 – 29,142	12,638 – 29,958	13,244 – 31,963	13,654 – 32,370	14,336 – 33,988	14,120 - 33,478	14,248 – 33,780	14,632 - 34,692
4.0	27,658 – 43,652	28,266 – 44,612	29,142 – 45,994	29,958 – 47,282	31,963 – 49,552	32,370 – 51,088	33,988 – 53,642	33,478 – 52,838	33,780 – 53,314	34,692 - 54,754
6.0	43,652 – 60,596	44,612 – 61,930	45,994 – 63,850	47,282 – 65,638	49,552 – 68,788	51,088 – 70,920	53,642 – 74,466	52,838 - 73,350	53,314 - 74,010	54,754 - 76,008
8.0	60,596 – 76,582	61,930 – 78,266	63,850 – 80,692	65,638 – 82,952	68,788 – 86,934	70,920 – 89,628	74,466 – 94,110	73,350 – 92,698	74,010 - 93,532	76,008 - 96,058
9.3	$76,582 and over	$78,266 and over	$80,692 and over	82,952 - 999,999	86,934 - 999,999	89,628 - 999,999	94,110 - 999,999	92,698 - 999,999	93,532 - 999,999	96,058 - 999,999
10.3	—	—	—	$1 million and over	$1 million and over	$1 million and over	$1 million and over	$1 million and over	$1 million and over	$1 million and over

Single and Married Filing Separately

Tax Rate	2002 Income Level	2003 Income Level	2004 Income Level	2005[1] Income Level	2006 Income Level	2007 Income Level	2008 Income Level	2009[2] Income Level	2010[2] Income Level	2011 Income Level
1.0	Up to $5,834	Up to $5,962	Up to $6,147	Up to $6,319	Up to $6,622	Up to $6,827	Up to $7,168	Up to $7,060	Up to $7,124	Up to $7,316
2.0	5,834 – 13,829	5,962 – 14,133	6,147 – 14,571	6,319 – 14,979	6,622 – 15,698	6,827 – 16,185	7,168 – 16,994	7,060 – 16,739	7,124 – 16,890	7,316 - 17,346
4.0	13,829 – 21,826	14,133 – 22,306	14,571 – 22,997	14,979 – 23,641	15,698 – 24,776	16,185 – 25,544	16,994 – 26,821	16,739 – 26,419	16,890 – 26,657	17,346 - 27,377
6.0	21,826 – 30,298	22,306 – 30,965	22,997 – 31,925	23,641 – 32,819	24,776 – 34,394	25,544 – 35,460	26,821 – 37,233	26,419 – 36,675	26,657 – 37,005	27,377 - 38,004
8.0	30,298 – 38,291	30,965 – 39,133	31,925 – 40,346	32,819 – 41,476	34,394 – 43,467	35,460 – 44,814	37,233 – 47,055	36,675 – 46,349	37,005 – 46,766	38,004 - 48,029
9.3	$38,291 and over	$39,133 and over	$40,346 and over	41,476 - 999,999	43,467 - 999,999	44,814 - 999,999	47,055 - 999,999	46,349- 999,999	46,766 - 999,999	48,029 - 999,999
10.3	—	—	—	$1 million and over	$1 million and over	$1 million and over	$1 million and over	$1 million and over	$1 million and over	$1 million and over

Head of Household

Tax Rate	2002 Income Level	2003 Income Level	2004 Income Level	2005[1] Income Level	2006 Income Level	2007 Income Level	2008 Income Level	2009[2] Income Level	2010[2] Income Level	2011 Income Level
1.0	Up to $11,673	Up to $11,930	Up to $12,300	Up to $12,644	Up to $13,251	Up to $13,662	Up to $14,345	Up to $14,130	Up to $14,257	Up to $14,642
2.0	11,673 – 27,659	11,930 – 28,267	12,300 – 29,143	12,644 – 29,959	13,251 – 31,397	13,662 – 32,370	14,345 – 33,989	14,130 – 33,479	14,257 – 33,780	14,642 - 34,692
4.0	27,659 – 35,653	28,267 – 36,437	29,143 – 37,567	29,959 – 38,619	31,397 – 40,473	32,370 – 41,728	33,989 – 43,814	33,479 – 43,157	33,780 – 43,545	34,692 - 44,721
6.0	35,653 – 44,125	36,437 – 45,096	37,567 – 46,494	38,619 – 47,796	40,473 – 50,090	41,728 – 51,643	43,814 – 54,225	43,157 – 53,412	43,545 – 53,893	44,721 - 55,348
8.0	44,125 – 52,120	45,096 – 53,267	46,494 – 54,918	47,796 – 56,456	50,090 – 59,166	51,643 – 61,000	54,225 – 64,050	53,412 – 63,089	53,893 – 63,657	55,348 - 65,376
9.3	$52,120 and over	$53,267 and over	$54,918 and over	56,456 - 999,999	59,166 - 999,999	61,000 - 999,999	64,050 - 999,999	63,089 - 999,999	63,657 - 999,999	65,376 - 999,999
10.3	—	—	—	$1 million and over	$1 million and over	$1 million and over	$1 million and over	$1 million and over	$1 million and over	$1 million and over

Source: California Franchise Tax Board

[1] Beginning in 2005, there is an additional tax of 1% on taxable income over $1 million for the expansion of mental health services.
[2] In 2009 and 2010, tax rates increased by 0.25% for all income levels.

Average Effective Rate
(amounts in thousands)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Personal income tax revenue[1]	$ 32,874,734	$ 32,661,274	$ 37,722,839	$ 42,595,352	$ 50,798,418	$ 53,289,524	$ 55,197,062	$ 45,482,726	$ 43,884,798	$ 51,691,153
Adjusted gross income[2]	731,160,385	762,491,998	841,229,496	932,142,017	990,695,484	1,059,967,500	972,420,100	881,160,200	939,888,500	980,167,100
Average effective rate[3]	4.5%	4.3%	4.5%	4.6%	5.1%	5.0%	5.7%	5.2%	4.7%	5.3%

[1] Personal income tax revenue is reported on a fiscal year basis.
[2] Source: California Franchise Tax Board. Fiscal year 2011 information reflects returns processed as of December 2012.
[3] The average effective rate equals personal income tax revenue divided by adjusted gross income.

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Debt Capacity

Debt Capacity schedules contain information to help the reader understand the State's outstanding debt, the capacity to repay that debt, and the ability to issue additional debt in the future. This section includes the following debt capacity schedules:

Schedule of Ratios of Outstanding Debt by Type
Schedule of Ratios of General Bonded Debt Outstanding
Schedule of General Obligation Bonds Outstanding
Schedule of Pledged Revenue Coverage

Sources: Unless otherwise noted, the information in the following schedules is derived from the State's Comprehensive Annual Financial Report.

Schedule of Ratios of Outstanding Debt by Type

For the Past Ten Fiscal Years
(amounts in thousands, except per capita)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Governmental activities										
General obligation bonds [1]	$ 26,757,371	$ 43,924,636	$ 45,541,417	$ 47,003,817	$ 50,269,442	$ 56,424,532	$ 68,653,507	$ 77,745,789	$ 79,469,085	$ 81,060,111
Revenue bonds	3,752,040	8,101,855	8,068,980	7,300,638	8,009,784	7,811,832	7,767,855	7,611,939	7,511,092	7,421,198
Certificates of participation and commercial paper	1,856,702	849,360	752,013	923,890	1,358,051	1,736,089	1,407,908	1,342,119	1,335,340	46,098
Capital lease obligations	3,906,423	3,745,410	3,918,560	4,466,828	4,346,179	4,376,410	4,456,039	4,967,290	4,882,233	5,176,341
Total governmental activities	**36,272,536**	**56,621,261**	**58,280,970**	**59,695,173**	**63,983,456**	**70,348,863**	**82,285,309**	**91,667,137**	**93,197,750**	**93,703,748**
Business-type activities										
General obligation bonds [1]	2,809,275	2,215,800	2,090,105	1,963,305	1,954,220	1,907,243	1,702,377	1,477,663	1,218,639	1,118,634
Revenue bonds	21,557,908	22,239,016	22,943,536	22,812,509	22,934,094	23,003,097	23,053,114	24,538,094	23,290,315	24,790,918
Certificates of participation and commercial paper	101,528	97,179	51,093	231,121	179,782	67,204	51,307	64,518	139,974	67,325
Total business-type activities	**24,468,711**	**24,551,995**	**25,084,734**	**25,006,935**	**25,068,096**	**24,977,544**	**24,806,798**	**26,080,275**	**24,648,928**	**25,976,877**
Total primary government	**$ 60,741,247**	**$ 81,173,256**	**$ 83,365,704**	**$ 84,702,108**	**$ 89,051,552**	**$ 95,326,407**	**$ 107,092,107**	**$ 117,747,412**	**$ 117,846,678**	**$ 119,680,625**
Debt as a percentage of personal income [2]	5.1%	6.6%	6.4%	6.1%	6.0%	6.1%	6.7%	7.8%	7.5%	7.3%
Amount of debt per capita [3]	$ 1,739	$ 2,294	$ 2,332	$ 2,354	$ 2,457	$ 2,608	$ 2,906	$ 3,176	$ 3,159	$ 3,186

Note: Details regarding the State's outstanding debt can be found in Notes 10 through 16 of the financial statements.

[1] Prior to fiscal year 2008, net unamortized bond premiums and refunding losses were not included.
[2] Ratio calculated using personal income data shown on pages 296 and 297 for the prior calendar year.
[3] Amount calculated using population data shown on pages 296 and 297 for the prior calendar year.

Schedule of Ratios of General Bonded Debt Outstanding

For the Past Ten Fiscal Years
(amounts in thousands, except per capita)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Net general bonded debt										
General obligation bonds [1]	$ 29,566,646	$ 35,244,356	$ 36,735,442	$ 39,034,092	$ 43,234,702	$ 47,828,805	$ 61,724,439	$ 71,284,447	$ 73,516,674	$ 75,791,795
Economic Recovery bonds	—	10,896,080	10,896,080	9,933,030	8,988,960	10,502,970	8,631,445	7,939,005	7,171,050	6,386,950
Less: restricted debt service fund	—	—	—	212,883	792,841	552,326	894	113,172	143,777	330,297
Net Economic Recovery bonds	—	10,896,080	10,896,080	9,720,147	8,196,119	9,950,644	8,630,551	7,825,833	7,027,273	6,056,653
Net general bonded debt	**$ 29,566,646**	**$ 46,140,436**	**$ 47,631,522**	**$ 48,754,239**	**$ 51,430,821**	**$ 57,779,449**	**$ 70,354,990**	**$ 79,110,280**	**$ 80,543,947**	**$ 81,848,448**
Net general bonded debt as a percentage of personal income [2]	2.5%	3.7%	3.6%	3.5%	3.4%	3.7%	4.4%	5.2%	5.1%	5.0%
Amount of net general bonded debt per capita [3]	$ 846	$ 1,304	$ 1,332	$ 1,355	$ 1,419	$ 1,581	$ 1,909	$ 2,134	$ 2,159	$ 2,179

Note: Details regarding the State's outstanding debt can be found in Notes 10 through 16 of the financial statements.

[1] Prior to fiscal year 2008, net unamortized bond premiums and refunding losses were not included.
[2] Ratio calculated using personal income data shown on pages 296 and 297 for the prior calendar year.
[3] Amount calculated using population data shown on pages 296 and 297 for the prior calendar year.

Schedule of General Obligation Bonds Outstanding

June 30, 2012
(amounts in thousands)

Governmental activity	
California Clean Water, Clean Air, Safe Neighborhood Parks and Coastal Protection	$ 2,251,440
California Library Construction and Renovation	303,945
California Park and Recreational Facilities	16,370
California Parklands	3,580
California Safe Drinking Water	69,015
California Stem Cell Research and Cures	1,120,305
California Wildlife, Coastal, and Park Land Conservation	148,995
Children's Hospital	1,199,545
Class Size Reduction Public Education Facilities	6,615,990
Clean Air and Transportation Improvement	940,980
Clean Water	13,675
Clean Water and Water Conservation	5,650
Clean Water and Water Reclamation	28,345
Community Parklands	3,940
County Correctional Facility Capital Expenditure	28,590
County Correctional Facility Capital Expenditure and Youth Facility	103,745
Disaster Preparedness and Flood Prevention	2,252,925
Earthquake Safety and Public Building Rehabilitation	138,485
Economic Recovery	6,386,950
Fish and Wildlife Habitat Enhancement	6,035
Higher Education Facilities	501,295
Highway Safety, Traffic Reduction, Air Quality, and Port Security	8,932,560
Housing Emergency Shelter	3,145,530
Housing and Homeless	2,395
Kindergarten-University Public Education Facilities	30,779,420
Lake Tahoe Acquisitions	600
New Prison Construction	83,600
Passenger Rail and Clean Air	123,435
Public Education Facilities	1,706,775
Safe, Clean, Reliable Water Supply	686,410
Safe Drinking Water, Clean Water, Watershed Protection, and Flood Protection	1,554,450
Safe Drinking Water, Water Quality and Supply, Flood Control, River and Coastal Protection	2,417,410
Safe Neighborhood Parks	1,674,020
Safe, Reliable High-Speed Passenger Train	499,285
School Building and Earthquake	18,640
School Facilities	1,445,060
Seismic Retrofit	1,361,885
State School Building Lease-Purchase	—
State, Urban, and Coastal Park	5,055
Veterans' Homes	39,190
Voting Modernization	62,325
Water Conservation	28,200
Water Conservation and Water Quality	41,270
Water Security, Clean Drinking Water, Coastal and Beach Protection	2,700,500
Total governmental activity	**79,447,815**
Business-type activity	
California Water Resources Development	362,375
Veterans Farm and Home Building	757,560
Total business-type activity	**1,119,935**
Total general obligation bonds	**80,567,750**
Unamortized bond premium/discount/other	1,610,995
Total general obligation bonds payable	**$ 82,178,745**

Source: California State Treasurer's Office

Schedule of Pledged Revenue Coverage

For the Past Ten Fiscal Years
(amounts in thousands)

	June 30	Gross Revenue [1]	Operating Expenses[2]	Net Revenue Available for Debt Service	Debt Service Requirements [3] Principal	Interest	Total	Coverage
Housing Loans	2003	$ 189,288	$ 30,635	$ 158,653	$ 26,735	$ 36,216	$ 62,951	2.52
	2004	138,438	19,439	118,999	28,665	43,683	72,348	1.64
	2005	121,063	27,687	93,376	90,970	34,813	125,783	0.74
	2006	127,733	25,654	102,079	25,715	34,949	60,664	1.68
	2007	130,128	19,062	111,066	292,461	33,959	326,420	0.34
	2008	130,139	21,263	108,876	56,225	33,333	89,558	1.22
	2009	109,636	21,838	87,798	22,205	33,699	55,904	1.57
	2010	85,321	16,404	68,917	111,085	34,874	145,959	0.47
	2011	89,224	15,802	73,422	130,770	32,619	163,389	0.45
	2012	84,830	20,322	64,508	88,105	24,914	113,019	0.57
Water Resources	2003	$ 689,431	$ 378,412	$ 311,019	$ 61,400	$ 84,726	$146,126	2.13
	2004	714,647	495,616	219,031	52,335	74,698	127,033	1.72
	2005	750,282	501,225	249,057	56,645	54,246	110,891	2.25
	2006	949,691	721,541	228,150	55,461	49,785	105,246	2.17
	2007	951,590	694,060	257,530	70,860	123,376	194,236	1.33
	2008	989,275	773,362	215,913	100,945	114,213	215,158	1.00
	2009	914,837	694,598	220,239	80,347	130,219	210,566	1.04
	2010	1,042,843	837,459	205,384	97,360	124,296	221,656	0.93
	2011	1,096,196	880,540	215,656	108,870	117,668	226,538	0.95
	2012	1,045,812	852,404	193,408	116,150	121,804	237,954	0.81
Water Pollution Control	2003	$ 54,201	$ 5,032	$ 49,169	$ —	$ 9,830	$ 9,830	5.00
	2004	51,687	4,059	47,628	—	10,923	10,923	4.36
	2005	55,218	4,082	51,136	21,425	10,424	31,849	1.61
	2006	64,740	10,615	54,125	22,185	9,812	31,997	1.69
	2007	78,564	3,387	75,177	22,850	9,178	32,028	2.35
	2008	71,404	4,521	66,883	23,585	8,422	32,007	2.09
	2009	59,923	4,416	55,507	22,930	7,747	30,677	1.80
	2010	53,365	9,880	43,485	23,655	6,928	30,583	1.42
	2011	49,585	4,876	44,709	24,390	5,996	30,386	1.47
	2012	50,183	2,849	47,334	24,285	4,984	29,269	1.62

(continued)

Source: California State Controller's Office

[1] Total gross revenues include non-operating interest revenue. Building authorities' revenue includes operating transfers in. The nature of the revenue pledged for each type of debt is as follows: investment and interest earnings for Housing Loans bonds and Water Pollution Control bonds; charges for services and sales for Water Resources bonds; power sales revenue for Electric Power bonds; rental revenue for Public Building Contruction bonds, and High Technology Education bonds; CSU Channel Island Financing Authority bonds, and building authorities bonds; residence fees for California State University bonds; tobacco settlements and investment earnings for the Golden State Tobacco Securitization Corporation bonds; and federal transportation funds for Grant Anticipation Revenue Vehicles.

[2] Total operating expenses are exclusive of depreciation, interest expense, and amortization (recovery) of deferred charges. In addition, operating expenses of the governmental funds do not include capital outlay and debt service.

[3] Debt service requirements include principal and interest of revenue bonds.

[4] All revenue bonds have been redeemed.

[5] The only source of state revenue to pay these bonds is federal transportation funds, and the state obligation to pay debt service on these bonds is limited to and dependent on receipt of the federal funds.

[6] In fiscal year 2011, the California State University Fund was reclassified from government to enterprise funds.

Schedule of Pledged Revenue Coverage (continued)

For the Past Ten Fiscal Years
(amounts in thousands)

	June 30	Gross Revenue [1]	Operating Expenses[2]	Net Revenue Available for Debt Service	Debt Service Requirements [3] Principal	Interest	Total	Coverage
Electric Power	2004	$ 5,203,000	$ 4,308,000	$ 895,000	$ 180,000	$465,000	$ 645,000	1.39
	2005	5,655,000	4,714,000	941,000	388,000	480,000	868,000	1.08
	2006	5,342,000	4,370,000	972,000	436,000	466,000	902,000	1.08
	2007	5,865,000	4,843,000	1,022,000	447,000	448,000	895,000	1.14
	2008	5,362,000	4,323,000	1,039,000	470,000	447,000	917,000	1.13
	2009	4,560,000	3,604,000	956,000	493,000	399,000	892,000	1.07
	2010	3,908,000	3,007,000	901,000	518,000	373,000	891,000	1.01
	2011	2,317,000	1,427,000	890,000	460,000	344,000	804,000	1.11
	2012	915,000	29,000	886,000	556,000	354,000	910,000	0.97
Public Buildings Construction	2003	$ 317,741	$ 64,148	$ 253,593	$ 252,189	$278,400	$ 530,589	0.48
	2004	307,910	18,480	289,430	560,964	271,836	832,800	0.35
	2005	315,718	13,837	301,881	290,210	279,474	569,684	0.53
	2006	384,442	9,832	374,610	332,345	318,098	650,443	0.58
	2007	396,895	3,699	393,196	365,953	324,246	690,199	0.57
	2008	384,816	33,566	351,250	342,582	331,355	673,937	0.52
	2009	366,151	78,489	287,662	360,559	335,248	695,807	0.41
	2010	430,069	120,565	309,504	377,998	367,055	745,053	0.42
	2011	423,775	507	423,268	394,490	383,185	777,675	0.54
	2012	426,960	13,211	413,749	405,585	384,400	789,985	0.52
High Technology Education	2003	$ 44,268	$ 3,035	$ 41,233	$ 34,585	$ 34,425	$ 69,010	0.60
	2004	34,052	4,050	30,002	35,865	32,975	68,840	0.44
	2005	36,737	3,107	33,630	37,060	30,387	67,447	0.50
	2006	26,508	2,489	24,019	36,910	19,422	56,332	0.43
	2007	22,966	1,514	21,452	25,624	21,062	46,686	0.46
	2008	20,600	3,511	17,089	22,265	13,344	35,609	0.48
	2009	15,975	3,837	12,138	36,730	11,704	48,434	0.25
	2010	13,015	5,009	8,006	19,665	9,977	29,642	0.27
	2011	10,498	681	9,817	19,995	8,878	28,873	0.34
	2012	8,452	—	8,452	21,105	7,754	28,859	0.29
California State University [6]	2003	$ 238,201	$ 129,413	$ 108,788	$ 85,895	$ 39,841	$ 125,736	0.87
	2004	250,208	172,910	77,298	113,658	49,167	162,825	0.47
	2005	395,396	302,275	93,121	90,025	52,696	142,721	0.65
	2006	512,231	303,261	208,970	109,354	91,876	201,230	1.04
	2007	554,851	689,223	(134,372)	99,598	31,149	130,747	(1.03)
	2008	640,209	511,895	128,314	105,229	115,928	221,157	0.58
	2009	811,454	261,628	549,826	43,572	129,238	172,810	3.18
	2010	599,572	577,765	21,807	47,815	151,988	199,803	0.11
	2011	3,722,414	5,455,059	(1,732,645)	56,344	172,231	228,575	(7.58)
	2012	4,165,118	5,770,880	(1,605,762)	138,535	174,914	313,449	(5.12)

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	June 30	Gross Revenue [1]	Operating Expenses[2]	Net Revenue Available for Debt Service	Debt Service Requirements [3] Principal	Interest	Total	Coverage
CSU Channel Island Financing Authority [4]	2003	$ 5,844	$ —	$ 5,844	$ —	$ 4,058	$ 4,058	1.44
	2004	5,449	—	5,449	—	4,205	4,205	1.30
	2005	8,149	10	8,139	—	5,541	5,541	1.47
	2006	8,377	11	8,366	—	6,123	6,123	1.37
	2007	7,397	8	7,389	—	6,951	6,951	1.06
	2008	245	13	232	—	556	556	0.42
Building Authorities	2003	$ 84,391	$ —	$ 84,391	$ 39,065	$ 43,040	$ 82,105	1.03
	2004	82,823	—	82,823	40,600	40,403	81,003	1.02
	2005	86,624	—	86,624	42,296	38,994	81,290	1.07
	2006	94,985	—	94,985	43,862	81,253	125,115	0.76
	2007	81,342	68	81,274	45,437	29,228	74,665	1.09
	2008	79,077	68	79,009	47,475	27,260	74,735	1.06
	2009	78,733	68	78,665	48,594	25,028	73,622	1.07
	2010	76,535	—	76,535	50,948	34,058	85,006	0.90
	2011	63,168	—	63,168	51,957	20,071	72,028	0.88
	2012	57,386	—	57,386	36,473	22,889	59,362	0.97
Golden State Tobacco Securitization Corporation	2003	$ 4,947	$ —	$ 4,947	$ —	$ 59,369	$ 59,369	0.08
	2004	427,159	367	426,792	60,427	298,708	359,135	1.19
	2005	427,159	305	426,854	55,500	330,652	386,152	1.11
	2006	396,987	—	396,987	61,320	307,824	369,144	1.08
	2007	413,246	—	413,246	133,555	276,965	410,520	1.01
	2008	445,097	—	445,097	129,120	326,631	455,751	0.98
	2009	493,448	—	493,448	116,960	320,679	437,639	1.12
	2010	393,487	—	393,487	138,260	316,038	454,298	0.87
	2011	361,974	—	361,974	60,230	315,268	375,498	0.96
	2012	368,853	—	368,853	65,765	312,815	378,580	0.97
Toll Bridge Seismic Retrofit [4]	2004	$ 139,366	$ 119,141	$ 20,225	$ —	$ 28,615	$ 28,615	0.71
	2005	131,791	97,386	34,405	—	28,615	28,615	1.20
Grant Anticipation Revenue Vehicles [5]	2004	$ 13,150	$ —	$ 13,150	$ —	$ 13,150	$ 13,150	1.00
	2005	65,134	—	65,134	41,545	23,589	65,134	1.00
	2006	72,338	—	72,338	47,845	24,493	72,338	1.00
	2007	72,149	—	72,149	49,190	22,959	72,149	1.00
	2008	71,945	—	71,945	50,985	20,960	71,945	1.00
	2009	77,193	—	77,193	55,275	21,918	77,193	1.00
	2010	83,272	—	83,272	62,335	20,937	83,272	1.00
	2011	84,294	—	84,294	64,785	19,509	84,294	1.00
	2012	84,290	—	84,290	67,730	16,560	84,290	1.00

(concluded)

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Demographic and Economic Information

The ***demographic and economic*** schedules contain trend information to help the reader understand the environment in which the State's financial activities occur. This section includes the following demographic and economic schedules:

Schedule of Demographic and Economic Indicators
Schedule of Employment by Industry

Schedule of Demographic and Economic Indicators

For Calendar Years 2002 - 2011

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Population (in thousands)										
California [1]	34,938	35,389	35,753	35,986	36,247	36,553	36,856	37,077	37,309	37,570
% Change	1.2%	1.3%	1.0%	0.7%	0.7%	0.8%	0.8%	0.6%	0.6%	0.7%
United States [1]	287,804	290,326	293,046	295,753	298,593	301,580	304,375	307,007	309,330	311,592
% Change	1.0%	0.9%	0.9%	0.9%	1.0%	1.0%	0.9%	0.9%	0.8%	0.7%
Total personal income (in millions)										
California [1]	$ 1,187,348	$ 1,232,981	$ 1,312,227	$ 1,387,661	$ 1,495,533	$ 1,566,400	$ 1,610,698	$ 1,516,677	$ 1,564,209	$ 1,645,138
% Change	1.6%	3.8%	6.4%	5.7%	7.8%	4.7%	2.8%	-5.8%	3.1%	5.2%
United States [1]	$ 9,054,702	$ 9,369,072	$ 9,928,790	$ 10,476,669	$ 11,256,516	$ 11,900,562	$ 12,451,660	$ 11,852,715	$ 12,308,496	$ 12,949,905
% Change	2.0%	3.5%	6.0%	5.5%	7.4%	5.7%	4.6%	-4.8%	3.8%	5.2%
Per capita personal income										
California [1, 2]	$ 33,984	$ 34,841	$ 36,703	$ 38,561	$ 41,259	$ 42,853	$ 43,702	$ 40,906	$ 41,926	$ 43,789
% Change	0.4%	2.5%	5.3%	5.1%	7.0%	3.9%	2.0%	-6.4%	2.5%	4.4%
United States [1, 2]	$ 31,461	$ 32,271	$ 33,881	$ 35,424	$ 37,699	$ 39,461	$ 40,909	$ 38,607	$ 39,791	$ 41,560
% Change	1.0%	2.6%	5.0%	4.6%	6.4%	4.7%	3.7%	-5.6%	3.1%	4.4%
Labor force and employment (in thousands)										
California										
Civilian labor force [1]	17,344	17,391	17,444	17,545	17,687	17,921	18,203	18,208	18,316	18,385
Employed [1]	16,181	16,200	16,355	16,592	16,821	16,961	16,890	16,145	16,052	16,227
Unemployed [1]	1,163	1,191	1,090	953	865	960	1,313	2,064	2,265	2,158
Unemployment rate [1]	6.7%	6.8%	6.2%	5.4%	4.9%	5.4%	7.2%	11.3%	12.4%	11.7%
United States unemployment rate	5.8%	6.0%	5.5%	5.1%	4.6%	4.6%	5.8%	9.3%	9.6%	8.9%

Source: Economic Research Unit, California Department of Finance; Bureau of Economic Analysis, United States Department of Commerce; Labor Market Information Division, Employment Development Department; Bureau of Labor Statistics, United States Department of Labor.

[1] Some prior years were updated based on more current information.
[2] Calculated by dividing total personal income by population.

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Schedule of Employment by Industry

For Calendar Years 2002 and 2011

	2002		2011	
Industry	**Employees**	**Percent of Total State Employment**	**Employees**	**Percent of Total State Employment**
Services	5,513,200	37.2%	5,977,200	41.4%
Government				
Federal	197,000	1.3%	192,800	1.3%
Military	56,800	0.4%	62,300	0.4%
State and Local	2,193,300	14.7%	2,143,600	14.8%
Retail trade	1,582,200	10.7%	1,532,000	10.6%
Manufacturing	1,631,800	11.0%	1,245,800	8.6%
Information, finance, and insurance	1,075,800	7.3%	948,400	6.6%
Construction and utilities	829,200	5.6%	612,100	4.2%
Wholesale trade	652,100	4.4%	659,000	4.6%
Transportation and warehousing	436,200	2.9%	413,500	2.9%
Farming	372,700	2.5%	385,300	2.7%
Real estate	268,200	1.8%	245,500	1.7%
Natural resources and mining	23,100	0.2%	28,500	0.2%
Total	**14,831,600**	**100.0%**	**14,446,000**	**100.0%**

Source: Labor Market Information Division, California Employment Development Department

Operating Information

The ***operating information*** schedules assist the reader in evaluating the size, efficiency, and effectiveness of the State's government. This section includes the following operating information schedules:

Schedule of Full-time Equivalent State Employees by Function
Schedule of Operating Indicators by Function
Schedule of Capital Asset Statistics by Function

Schedule of Full-Time Equivalent State Employees by Function

For the Past Ten Fiscal Years

Fiscal Year	General Government	Education	Health and Human Services	Resources	State and Consumer Services	Business, Transportation and Housing	Correctional Programs	Total
2003	21,738	121,760	50,271	20,047	14,884	43,426	49,268	321,394
2004	20,661	122,040	49,868	19,343	15,039	41,448	48,461	316,860
2005	19,884	119,162	50,490	18,935	15,023	41,450	48,740	313,684
2006	20,336	121,973	49,569	19,076	15,126	41,342	50,171	317,593
2007	21,035	134,974	49,533	19,677	15,530	41,314	53,321	335,384
2008	21,825	134,832	49,330	20,868	15,840	42,139	58,284	343,118
2009	22,347	135,720	50,996	21,985	16,350	42,254	60,957	350,609
2010	30,390	133,642	43,663	22,223	15,868	40,590	59,401	345,777
2011	32,535	138,017	48,638	23,611	17,043	44,844	67,272	371,959

Fiscal Year	General [2] Government	Education	Health and Human Services	Resources	Business, [3] Consumer Services, and Housing	Transportation [4]	Correctional Programs	Total
2012 [1]	44,673	131,039	46,431	24,199	6,236	41,758	62,472	356,808

Source: Annual Governor's Budget Summary, California Department of Finance

Note: The number of full-time equivalent employees is calculated by counting each person who works full time as one full-time equivalent and those who work part time as fractional equivalents based on time worked.

[1] Under the Governor's 2012 Reorganization Plan No. 2, significant reorganizations take place effective July 1, 2013, which impacts General Government; Business, Consumer Services, and Housing; and Transportation. Beginning fiscal year 2011-12, budget information is reported under the new sections, and is not comparable to that of prior years.

[2] Effective July 1, 2013, the Government Operations Agency, which will include but is not limited to Franchise Tax Board, Department of General Services, and Public Employees' Retirement System, is created and added to General Government. In the 2013-14 Governor's Budget, budget information for General Government is being retroactively stated for fiscal year 2011-12 and fiscal year 2012-13 to include Government Operations.

[3] Effective July 1, 2013, under Governor's 2012 Reorganization Plan No. 2, the majority of business and housing components under the previously reported Business, Transportation and Housing merged with the State and Consumer Services. In the 2013-14 Governor's Budget, budget information for Business, Consumer Services, and Housing is being retroactively stated for fiscal year 2011-12 and fiscal year 2012-13.

[4] Effective July 1, 2013, portions of the previously reported Business, Transportation and Housing is reorganized as the Transportation Agency under the Governor's 2012 Reorganization Plan No. 2. In the 2013-14 Governor's Budget, budget information for Transportation is being retroactively stated for fiscal year 2011-12 and fiscal year 2012-13.

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Schedule of Operating Indicators by Function

For the Past Ten Fiscal Years

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
General Government										
State Lottery										
Total revenue [1]	$ 2,782	$ 2,974	$ 3,334	$ 3,585	$ 3,318	$ 3,050	$ 2,955	$ 3,041	$ 3,439	$ 4,371
Allocation to Education Fund [1]	$ 977	$ 1,044	$ 1,149	$ 1,259	$ 1,177	$ 1,069	$ 1,028	$ 1,072	$ 1,103	$ 1,300
Judicial Council of California										
Supreme Court [2]										
Cases filed	8,862	8,564	8,990	9,261	8,988	10,521	9,274	9,562	10,145	N/A
Cases disposed	8,652	8,565	8,535	9,878	9,247	10,440	9,513	9,439	10,063	N/A
Courts of Appeal										
Notices of appeal filed [3]										
Civil	6,917	6,484	6,142	6,018	6,116	5,913	5,958	6,122	6,258	N/A
Criminal	6,493	6,625	6,312	6,516	6,508	6,681	6,819	6,857	6,877	N/A
Juvenile	2,481	2,703	2,626	2,715	2,880	2,900	2,858	2,759	2,106	N/A
Trial Courts										
Total civil cases [4, 10]										
Filings	1,548,402	1,503,419	1,426,822	1,418,722	1,462,820	1,582,092	1,729,648	1,647,817	1,574,569	N/A
Dispositions	1,386,017	1,360,908	1,304,924	1,267,534	1,286,736	1,280,184	1,537,243	1,530,502	1,599,388	N/A
Department of Food and Agriculture										
Milk production (million lbs) [5]	35,437	36,465	37,564	38,830	40,683	41,203	39,512	40,385	41,462	N/A
Farm land (thousand acres) [5]	26,900	26,400	25,900	25,700	25,400	25,400	25,400	25,400	25,400	N/A
Education										
Public Colleges and Universities										
Fall enrollment										
Community Colleges [10]	1,605,901	1,577,296	1,578,573	1,614,689	1,694,796	1,793,508	1,795,969	1,747,249	1,654,186	N/A
California State University	407,530	395,825	405,282	417,156	433,017	437,008	433,054	412,372	426,534	N/A
University of California	208,391	207,909	209,080	214,298	220,034	226,040	230,528	234,464	236,691	N/A
K-12 Schools										
Fall enrollment										
Public	6,244,403	6,299,015	6,322,217	6,312,103	6,286,943	6,275,469	6,252,011	6,190,425	6,217,002	6,220,993
Private	611,350	599,605	591,056	594,597	583,794	564,734	536,393	531,111	515,143	497,019

Source: California State Lottery; Judicial Council of California; U.S. Department of Agriculture, National Agricultural Statistics Service; California Departments of Finance, Education, Public Health, Motor Vehicles, Transportation, and Corrections and Rehabilitation; Employment Development Department; Department of Fish and Game; California Energy Commission; Franchise Tax Board; and Department of the California Highway Patrol.

(continued)

[1] Dollars in millions.
[2] Includes death penalty cases, habeas related to automatic appeals, petitions for review, original proceedings, and state bar matters.
[3] Includes only one notice of appeal per case.
[4] Includes personal injury, property damage, wrongful death, small claims, family law, probate, and other cases.
[5] Data based on calendar year.
[6] Total nonfarm and farm.
[7] Items reported by license year as of August 31, 2012.
[8] Data compiled from a 10% sample of California licensed drivers.
[9] A center-line mile is measured by the yellow dividing strip that runs down the middle of the road, regardless of the number of lanes on each side.
[10] Some prior years were updated based on more current information.
N/A=Not available

Schedule of Operating Indicators by Function (continued)

For the Past Ten Fiscal Years

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Health and Human Services										
Department of Public Health										
Vital statistics										
Live births [5]	540,827	544,685	548,700	562,157	566,137	551,567	526,774	509,979	502,023	N/A
Department of Social Services										
Total Food Stamp households (avg per month)	682,202	722,519	792,617	809,782	823,335	892,992	1,067,380	1,340,859	1,576,042	1,757,367
Employment Development Department										
Number of employed [5, 6, 10]	14,871,400	15,126,100	15,440,600	15,613,300	15,691,100	15,142,000	14,326,300	14,476,400	14,614,600	N/A
Resources										
Department of Fish and Game										
Sport fishing licenses sold [7, 10]	2,961,100	2,929,204	2,870,727	2,924,325	3,003,783	2,857,236	2,838,776	2,410,008	2,483,823	2,283,722
Hunting licenses sold [7, 10]	1,563,647	1,593,517	1,625,078	1,655,760	1,718,657	1,670,190	1,679,864	1,677,775	1,847,182	736,559
California Energy Commission										
Electrical energy generation plus net imports (gigawatt hours) [10]	279,774	289,979	289,086	298,096	304,517	307,183	298,827	290,519	284,953	N/A
State and Consumer Services										
Franchise Tax Board										
Personal Income Tax [5]										
Number of tax returns filed	13,624,349	13,832,810	14,087,896	14,382,677	15,016,273	14,806,336	14,638,205	14,814,426	N/A	N/A
Taxable income [1]	$ 619,166	$ 695,075	$ 767,877	$ 812,008	$ 872,869	$ 799,490	$ 729,658	$ 794,758	N/A	N/A
Total tax liability [1]	$ 30,374	$ 36,093	$ 43,131	$ 45,716	$ 49,693	$ 41,676	$ 38,870	$ 44,472	N/A	N/A
Corporation Tax [5]										
Number of tax returns filed	589,310	616,805	651,060	684,363	709,937	722,358	727,675	738,224	N/A	N/A
Income reported for taxation [1]	$ 50,819	$ 82,328	$ 115,474	$ 140,325	$ 121,843	$ 67,921	$ 55,367	$ 96,965	N/A	N/A
Total tax liability [1]	$ 6,227	$ 7,123	$ 8,680	$ 9,992	$ 9,414	$ 9,106	$ 7,858	$ 8,604	N/A	N/A
Business and Transportation										
Department of Motor Vehicles										
Motor vehicle registration	31,017,017	33,289,925	33,363,963	33,882,029	32,047,124	31,920,649	31,799,398	31,987,821	31,802,483	N/A
License issued by age [5,8]										
Under age 18	283,258	287,800	277,168	268,199	262,415	244,481	229,545	218,997	227,069	N/A
Between 18-80	21,937,723	22,073,101	22,155,604	22,450,786	22,804,927	22,922,361	22,910,011	23,001,119	23,150,222	N/A
Over age 80	466,105	482,340	494,577	518,102	562,518	552,150	560,491	579,397	579,207	N/A
California Highway Patrol										
Total number of DUI arrests [5]	87,496	94,023	89,946	94,251	92,270	97,019	95,135	89,814	88,922	81,808
Department of Transportation										
Highway center-line miles-rural [5,9]	11,414	11,380	11,090	10,821	10,830	10,811	10,808	10,785	10,780	N/A
Highway center-line miles-urban [5,9]	3,811	3,829	4,123	4,422	4,439	4,393	4,384	4,375	4,353	N/A
Correctional Programs										
Department of Corrections and Rehabilitation										
Division of Adult Institutions										
Institution population at December 31 each year	160,362	162,687	166,723	171,310	170,452	170,283	167,922	162,200	147,181	132,768
Division of Juvenile Justice										
Institution population at June 30 each year	5,024	4,067	3,348	2,962	2,531	1,877	1,589	1,474	1,263	922

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Schedule of Capital Asset Statistics by Function

For the Past Ten Fiscal Years

	2003 [1]	2004 [2]	2005	2006	2007	2008	2009	2010	2011	2012
General Government										
Department of Food and Agriculture										
Vehicles and mobile equipment [6]	941	929	903	907	915	818	803	746	809	804
Square footage of structures (in thousands)	467	467	467	453	453	453	466	466	466	466
Department of Justice										
Vehicles and mobile equipment	1,012	967	969	968	966	826	870	816	677	531
Department of Military										
Vehicles and mobile equipment	173	155	152	210	182	206	182	208	249	233
Square footage of structures (in thousands)	5,091	5,218	3,348	3,388	3,388	3,387	3,383	3,154	3,530	3,511
Department of Veterans Affairs										
Veterans homes	3	3	3	3	3	3	5	6	6	6
Vehicles and mobile equipment	157	157	139	111	248	251	120	113	132	143
Square footage of structures (in thousands)	1,141	1,598	1,598	1,598	1,598	1,598	1,683	1,600	2,086	2,086
Education										
California State University										
Vehicles and mobile equipment [3, 6]	N/A	N/A	N/A	601	3,343	3,994	4,015	4,338	4,415	4,415
Campuses	23	23	23	23	23	23	23	23	23	23
Square footage of structures (in thousands)	50,476	58,983	59,588	59,921	62,198	63,971	66,686	69,049	71,287	73,785
Health and Human Services										
Department of Developmental Services										
Vehicles and mobile equipment	886	900	836	655	829	839	701	569	818	789
Developmental centers	7	7	7	7	7	7	7	5	5	5
Square footage of structures (in thousands)	5,914	5,160	5,185	5,181	5,181	5,186	5,187	5,185	5,294	5,294
Department of State Hospitals [7]										
Vehicles and mobile equipment	425	438	439	655	629	638	658	665	709	718
State hospitals	4	4	4	5	5	5	5	5	5	5
Square footage of structures (in thousands)	4,527	4,628	4,626	4,673	6,359	6,364	6,348	6,331	6,331	6,336

Sources: California Department of General Services (DGS)

(continued)

[1] For fiscal year 2003, the square footage of structures information is from February 2003 because June 2003 information is not available.
[2] For fiscal year 2004, the square footage of structures information is from November 2004 because June 2004 information is not available.
[3] Prior to fiscal year 2006, the DGS did not require California State University to report its vehicles. For 2006, more campuses reported vehicle information.
[4] For 2008, California Highway Patrol purchased numerous vehicles, and in their physical count also included motorcycles, which had not been reported for previous years.
[5] For fiscal year 2006, Department of Corrections and Rehabilitation merged with Department of Youth Authority.
[6] For fiscal year 2008, DGS was not able to obtain complete set of data from the agency.
[7] For 2012, portions of the Department of Mental Health became the Department of State Hospitals.

N/A = not available

Schedule of Capital Asset Statistics by Function (continued)

For the Past Ten Fiscal Years

	2003 [1]	2004 [2]	2005	2006	2007	2008	2009	2010	2011	2012
Resources										
Department of Fish and Game										
Vehicles and mobile equipment	2,754	2,754	3,157	3,182	3,311	2,868	3,640	2,630	3,180	3,012
Square footage of structures (in thousands)	1,108	1,108	1,108	1,112	1,120	1,192	1,269	1,301	1,313	1,317
Department of Forestry and Fire										
Vehicles and mobile equipment	3,071	3,079	3,016	2,572	2,945	3,043	3,067	2,598	2,804	2,810
Square footage of structures (in thousands)	3,656	3,892	3,892	3,885	3,883	3,869	3,851	3,947	3,943	3,935
Department of Parks and Recreation										
Vehicles and mobile equipment	2,467	2,709	3,044	2,742	2,988	3,023	3,220	3,102	3,715	4,200
State Parks	273	277	278	278	276	279	278	278	279	280
Acres of state park land (in thousands)	1,461	1,488	1,506	1,552	1,235	1,248	1,331	1,365	1,334	1,333
Square footage of structures (in thousands)	6,732	6,510	6,348	6,350	6,350	6,350	6,350	6,350	6,433	6,623
State Lands Commission										
Vehicles and mobile equipment	56	56	56	49	51	49	57	47	50	42
Acres of land (in thousands)	4,608	4,498	4,498	4,496	4,492	4,491	4,491	4,491	4,491	4,491
State and Consumer Services										
Department of Consumer Affairs										
Vehicles and mobile equipment	762	646	628	1,050	640	726	718	574	578	574
Department of General Services										
Vehicles and mobile equipment	7,451	6,895	6,883	6,894	7,330	7,558	6,736	5,761	5,670	4,991
Square footage of structures (in thousands)	14,812	15,981	15,995	17,350	18,084	18,084	18,084	18,394	18,602	19,180
Business and Transportation										
California Highway Patrol										
Vehicles and mobile equipment [4]	4,373	3,933	3,930	4,105	4,655	5,228	5,914	5,422	5,337	5,013
Square footage of structures (in thousands)	1,034	1,146	1,147	1,087	1,110	1,118	1,118	1,135	1,135	1,149
Department of Motor Vehicles										
Vehicles and mobile equipment	434	395	395	373	458	434	417	366	366	366
Square footage of structures (in thousands)	1,853	1,853	1,853	1,827	1,866	1,848	1,855	1,855	1,842	1,842
Department of Transportation										
Vehicles and mobile equipment	11,057	11,039	10,856	11,048	11,130	11,098	13,346	11,302	12,759	12,690
Square footage of structures (in thousands)	5,723	6,274	6,284	6,632	6,618	6,229	6,434	6,444	6,519	8,131
Correctional Programs										
Department of Corrections and Rehabilitation										
Vehicles and mobile equipment [6]	7,221	7,189	7,006	6,451	6,657	7,908	7,778	5,787	5,985	5,952
Prisons and juvenile facilities [5]	32	32	32	32	41	41	39	39	39	39
Square footage of structures (in thousands)	39,591	40,483	40,472	40,622	40,777	40,831	40,852	41,228	41,399	41,399

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STATE OF CALIFORNIA

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California State Controller

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