California State Auditor

March 2013

State of California

Financial Report
Year Ended June 30, 2012

Report 2012-001

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March 26, 2013 2012-001

The Governor of California
President pro Tempore of the Senate
Speaker of the Assembly
State Capitol
Sacramento, California 95814

Dear Governor and Legislative Leaders:

The State Auditor's Office presents its Independent Auditor's Report on the State of California's basic financial statements for the fiscal year ended June 30, 2012. These financial statements are presented on a basis in conformity with generally accepted accounting principles (GAAP). The financial statements show that the State's General Fund had revenues and other financing sources that were approximately $3.1 billion less than expenditures and other financing uses. The General Fund ended the fiscal year with a fund deficit of approximately $23 billion. The GAAP basis government-wide statements include all liabilities owed by the State while the budgetary basis statements used to report on the State's budget do not reflect all liabilities.

We conducted the audit to comply with the California Government Code, Section 8546.4.

Respectfully submitted,

John F. Collins II

JOHN F. COLLINS II, CPA
Deputy State Auditor

Contents

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 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

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)**

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.

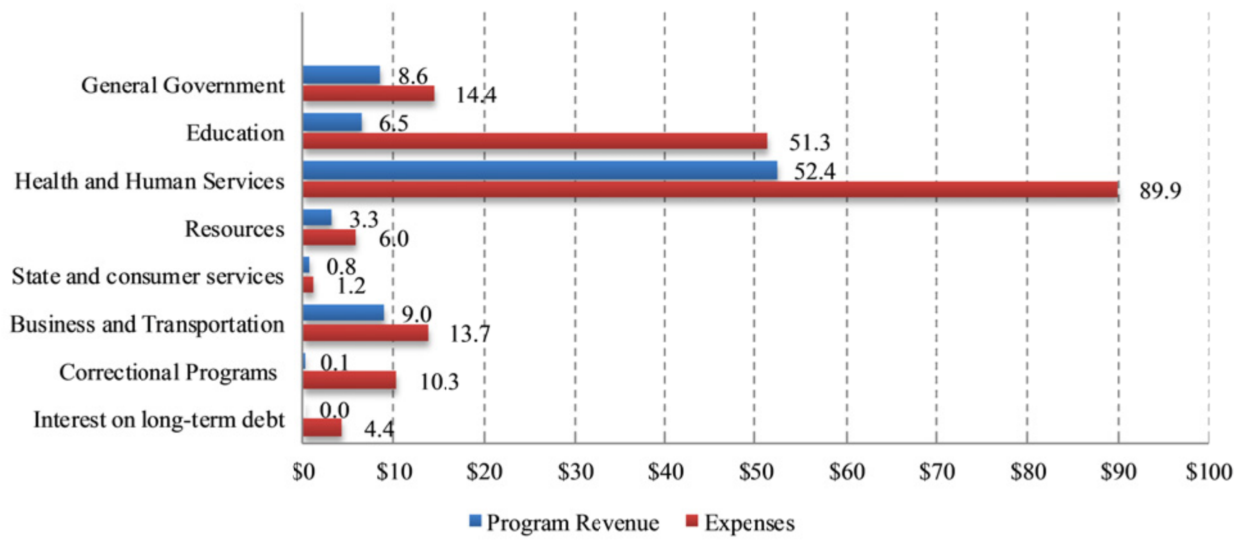
Chart 1 presents a comparison of governmental activities' expenses by program, with related revenues.

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)

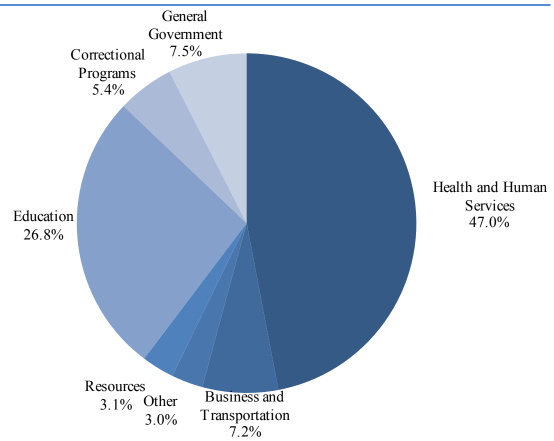
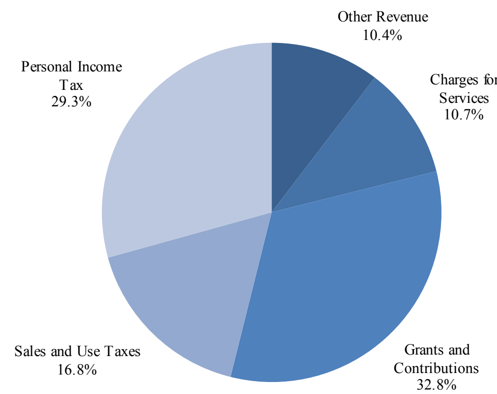


Chart 3

Revenues by Source
Year Ended June 30, 2012
(as a percent)



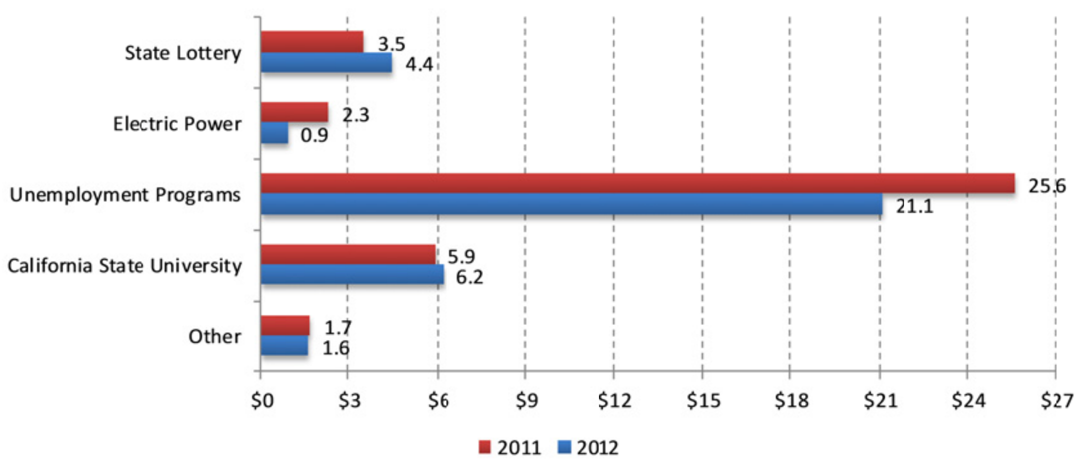
Business-type Activities

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.

	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)

FUNCTIONS/PROGRAMS	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions
Primary government				
Governmental activities:				
General government	$ 14,411,737	$ 6,841,334	$ 1,746,564	$ —
Education	51,288,647	81,212	6,428,120	—
Health and human services	89,939,730	4,940,650	47,422,641	—
Resources	5,950,635	2,866,232	398,020	—
State and consumer services	1,241,269	724,222	34,925	—
Business and transportation	13,719,927	4,342,668	2,469,014	2,193,189
Correctional programs	10,343,574	16,757	77,722	—
Interest on long-term debt	4,365,181	—	—	—
Total governmental activities	191,260,700	19,813,075	58,577,006	2,193,189
Business-type activities:				
Electric Power	915,000	915,000	—	—
Water Resources	1,047,574	1,047,574	—	—
Public Building Construction	403,853	428,260	—	—
State Lottery	4,431,709	4,484,291	—	—
Unemployment Programs	21,111,658	21,947,781	—	—
California State University	6,181,397	2,915,123	1,249,995	—
High Technology Education	7,778	8,452	—	—
State Water Pollution Control Revolving	8,780	57,540	—	106,057
Housing Loan	89,570	84,830	—	—
Other enterprise programs	78,601	74,693	—	—
Total business-type activities	34,275,920	31,963,544	1,249,995	106,057
Total primary government	**$ 225,536,620**	**$ 51,776,619**	**$ 59,827,001**	**$ 2,299,246**
Component Units				
University of California	$ 26,304,230	$ 14,318,472	$ 7,617,794	$ 198,023
State Compensation Insurance Fund	1,718,061	936,786	—	—
California Housing Finance Agency	530,774	408,252	75,142	—
Public Employees' Benefits Funds	3,113,181	2,185,066	—	—
Nonmajor component units	1,850,672	1,065,852	559,922	13,628
Total component units	**$ 33,516,918**	**$ 18,914,428**	**$ 8,252,858**	**$ 211,651**

General revenues:
- Personal income taxes
- Sales and use taxes
- Corporation taxes
- Motor vehicle excise tax
- Insurance taxes
- Other taxes
- Investment and interest (loss)
- Escheat
- Other

Transfers

Total general revenues and transfers

Change in net assets

Net assets, July 1, 2011

Net assets (deficit), June 30, 2012

*Restated

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

Net (Expenses) Revenues and Changes in Net Assets			
Primary Government			
Governmental Activities	Business-type Activities	Total	Component Units
$ (5,823,839)		$ (5,823,839)	
(44,779,315)		(44,779,315)	
(37,576,439)		(37,576,439)	
(2,686,383)		(2,686,383)	
(482,122)		(482,122)	
(4,715,056)		(4,715,056)	
(10,249,095)		(10,249,095)	
(4,365,181)		(4,365,181)	
(110,677,430)		(110,677,430)	
	$ —	—	
	—	—	
	24,407	24,407	
	52,582	52,582	
	836,123	836,123	
	(2,016,279)	(2,016,279)	
	674	674	
	154,817	154,817	
	(4,740)	(4,740)	
	(3,908)	(3,908)	
	(956,324)	(956,324)	
(110,677,430)	**(956,324)**	**(111,633,754)**	
			$ (4,169,941)
			(781,275)
			(47,380)
			(928,115)
			(211,270)
			(6,137,981)
54,368,347	—	54,368,347	—
31,216,438	—	31,216,438	—
8,629,935	—	8,629,935	—
5,263,435	—	5,263,435	—
2,408,473	—	2,408,473	—
2,368,748	—	2,368,748	—
72,237	—	72,237	1,836,764
372,215	—	372,215	—
—	—	—	2,611,024
(2,031,032)	2,031,032	—	—
102,668,796	**2,031,032**	**104,699,828**	**4,447,788**
(8,008,634)	1,074,708	(6,933,926)	(1,690,193)
(10,249,082) *	**1,732,321** *	**(8,516,761)**	**36,752,477** *
$ (18,257,716)	**$ 2,807,029**	**$ (15,450,687)**	**$ 35,062,284**

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

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Fund Financial Statements

Balance Sheet

Governmental Funds

June 30, 2012
(amounts in thousands)

	General	Federal
ASSETS		
Cash and pooled investments	$ 897,718	$ 254,318
Investments	—	—
Receivables (net)	11,778,175	714
Due from other funds	1,229,720	—
Due from other governments	257,172	12,775,942
Interfund receivables	46,767	90,316
Loans receivable	148,319	164,948
Other assets	7,070	—
Total assets	**$ 14,364,941**	**$ 13,286,238**
LIABILITIES		
Accounts payable	$ 1,817,063	$ 1,320,342
Due to other funds	15,266,286	9,637,470
Due to component units	1,248,944	—
Due to other governments	1,042,392	2,008,978
Interfund payables	10,584,695	—
Tax overpayments	5,386,810	—
Deposits	2,192	—
Advance collections	564,676	136,662
Interest payable	—	5,544
Unclaimed property liability	924,144	—
General obligation bonds payable	—	—
Other liabilities	489,027	15,923
Total liabilities	**37,326,229**	**13,124,919**
FUND BALANCES		
Nonspendable	7,614	—
Restricted	80,849	161,319
Committed	19,600	—
Assigned	—	—
Unassigned	(23,069,351)	—
Total fund balances (deficit)	**(22,961,288)**	**161,319**
Total liabilities and fund balances	**$ 14,364,941**	**$ 13,286,238**

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

Transportation	Environmental and Natural Resources	Nonmajor Governmental	Total
$ 2,552,190	$ 5,281,994	$ 9,394,652	$ 18,380,872
—	—	402,562	402,562
773,834	420,458	2,631,247	15,604,428
1,614,852	482,887	2,769,483	6,096,942
72,129	39,741	91,448	13,236,432
2,967,340	1,463,462	3,229,868	7,797,753
—	968,812	2,376,981	3,659,060
79,013	—	19,637	105,720
$ 8,059,358	**$ 8,657,354**	**$ 20,915,878**	**$ 65,283,769**
$ 448,691	$ 434,481	$ 953,470	$ 4,974,047
120,774	13,095	3,639,383	28,677,008
454	2,000	48,296	1,299,694
446,995	89,199	2,952,549	6,540,113
2,745	4,272	6,117	10,597,829
—	—	—	5,386,810
6,999	308	489,793	499,292
15,001	139,327	94,304	949,970
—	—	173,060	178,604
—	—	—	924,144
—	—	476,470	476,470
291,109	9,618	138,823	944,500
1,332,768	**692,300**	**8,972,265**	**61,448,481**
—	—	—	7,614
6,683,003	7,486,983	10,459,356	24,871,510
48,072	537,894	1,523,123	2,128,689
—	—	3	3
(4,485)	(59,823)	(38,869)	(23,172,528)
6,726,590	**7,965,054**	**11,943,613**	**3,835,288**
$ 8,059,358	**$ 8,657,354**	**$ 20,915,878**	**$ 65,283,769**

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

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)**

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

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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
REVENUES		
Personal income taxes	$ 53,597,172	$ —
Sales and use taxes	18,618,281	—
Corporation taxes	8,609,935	—
Motor vehicle excise taxes	—	—
Insurance taxes	2,157,094	—
Other taxes	539,119	—
Intergovernmental	—	60,770,066
Licenses and permits	78,198	—
Charges for services	242,208	—
Fees	961,375	—
Penalties	270,664	126
Investment and interest	33,092	—
Escheat	372,215	—
Other	1,056,662	—
Total revenues	**86,536,015**	**60,770,192**
EXPENDITURES		
Current:		
General government	3,535,755	1,166,863
Education	42,092,217	6,592,774
Health and human services	27,716,347	45,235,517
Resources	1,031,292	366,331
State and consumer services	598,875	34,906
Business and transportation	6,063	4,537,834
Correctional programs	7,908,396	11,856
Capital outlay	528,804	—
Debt service:		
Bond and commercial paper retirement	1,680,445	67,730
Interest and fiscal charges	3,183,458	16,560
Total expenditures	**88,281,652**	**58,030,371**
Excess (deficiency) of revenues over (under) expenditures	(1,745,637)	2,739,821
OTHER FINANCING SOURCES (USES)		
General obligation bonds and commerical paper issued	—	—
Refunding debt issued	438,635	—
Payment to refund long-term debt	(437,684)	—
Premium on bonds issued	246,277	—
Capital leases	528,804	—
Transfers in	1,236,110	—
Transfers out	(3,323,495)	(2,700,056)
Total other financing sources (uses)	(1,311,353)	(2,700,056)
Net change in fund balances	(3,056,990)	39,765
Fund balances (deficit), July 1, 2011	**(19,904,298) ***	**121,554**
Fund balances (deficit), June 30, 2012	**$ (22,961,288)**	**$ 161,319**

*Restated

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

Transportation	Environmental and Natural Resources	Nonmajor Governmental	Total
$ —	$ —	$ 845,561	$ 54,442,733
588,803	—	11,998,099	31,205,183
—	—	—	8,609,935
5,263,435	—	—	5,263,435
—	—	251,379	2,408,473
5,619	125,762	1,636,217	2,306,717
—	—	1,465,605	62,235,671
3,828,465	370,968	2,322,370	6,600,001
131,938	115,824	239,010	728,980
18,649	2,265,728	3,921,896	7,167,648
44,106	23,675	809,233	1,147,804
14,632	62,930	65,244	175,898
—	—	—	372,215
69,277	114,088	1,302,478	2,542,505
9,964,924	**3,078,975**	**24,857,092**	**185,207,198**
146,761	65,426	8,569,500	13,484,305
2,759	19,982	1,654,605	50,362,337
2,886	157,153	16,361,488	89,473,391
378,217	3,375,014	207,721	5,358,575
97,985	77,784	409,949	1,219,499
10,509,669	11,027	620,018	15,684,611
—	—	1,885,594	9,805,846
—	321,499	446,110	1,296,413
4,347	419,421	2,264,049	4,435,992
32,892	18,595	1,202,138	4,453,643
11,175,516	**4,465,901**	**33,621,172**	**195,574,612**
(1,210,592)	(1,386,926)	(8,764,080)	(10,367,414)
937,285	427,610	2,800,620	4,165,515
592,013	273,408	2,996,499	4,300,555
(620,866)	(290,044)	(3,160,240)	(4,508,834)
60,788	31,722	329,144	667,931
—	—	—	528,804
19	240,601	4,046,914	5,523,644
(889,289)	(27,622)	(558,669)	(7,499,131)
79,950	655,675	6,454,268	3,178,484
(1,130,642)	(731,251)	(2,309,812)	(7,188,930)
7,857,232 *	**8,696,305** *	**14,253,425** *	**11,024,218**
$ 6,726,590	**$ 7,965,054**	**$ 11,943,613**	**$ 3,835,288**

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)**

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

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Statement of Net Assets

Proprietary Funds

June 30, 2012

(amounts in thousands)

	Electric Power	Water Resources	Public Building Construction
ASSETS			
Current assets:			
Cash and pooled investments	$ —	$ 422,404	$ —
Amount on deposit with U.S. Treasury	—	—	—
Investments	—	—	—
Restricted assets:			
Cash and pooled investments	979,000	—	2,449,795
Due from other governments	—	—	—
Net investment in direct financing leases	—	—	398,319
Receivables (net)	—	110,649	176,113
Due from other funds	4,000	1,288	28,619
Due from other governments	—	15,787	—
Prepaid items	—	—	—
Inventories	—	29,653	—
Recoverable power costs (net)	132,000	—	—
Other current assets	46,000	—	—
Total current assets	1,161,000	579,781	3,052,846
Noncurrent assets:			
Restricted assets:			
Cash and pooled investments	886,000	63,246	353,897
Investments	300,000	75,615	23,262
Loans receivable	—	—	—
Investments	—	—	—
Net investment in direct financing leases	—	—	6,810,267
Receivables	—	—	—
Interfund receivables	—	91,517	—
Loans receivable	—	19,142	—
Recoverable power costs (net)	5,038,000	—	—
Deferred charges	—	908,150	70,585
Capital assets:			
Land	—	136,129	—
Collections – nondepreciable	—	—	—
Buildings and other depreciable property	—	4,825,944	—
Intangible assets – amortizable	—	24,162	—
Less: accumulated depreciation/amortization	—	(2,281,807)	—
Construction in progress	—	408,072	1,102,811
Intangible assets – non-amortizable	—	100,452	—
Other noncurrent assets	1,000	—	—
Total noncurrent assets	6,225,000	4,370,622	8,360,822
Total assets	**$ 7,386,000**	**$ 4,950,403**	**$ 11,413,668**

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

Business-type Activities - Enterprise Funds					Governmental Activities
State Lottery	Unemployment Programs	California State University	Nonmajor Enterprise	Total	Internal Service Funds
$ 189,377	$ 2,085,254	$ 444,458	$ 642,846	$ 3,784,339	$ 733,235
—	57,064	—	—	57,064	—
148,832	—	1,346,906	—	1,495,738	—
—	—	—	51,052	3,479,847	—
—	—	—	45,618	45,618	—
—	—	9,216	19,342	426,877	—
303,164	1,299,833	142,685	50,819	2,083,263	129,073
476	36,885	702,650	4,828	778,746	191,388
—	219,367	—	185,407	420,561	9,084
2,215	5,223	44,214	12	51,664	102,825
7,947	—	—	3,292	40,892	91,364
—	—	—	—	132,000	—
—	180	—	44	46,224	—
652,011	3,703,806	2,690,129	1,003,260	12,842,833	1,256,969
—	—	884	15,673	1,319,700	—
—	—	—	11,409	410,286	—
—	—	—	192,549	192,549	—
995,150	—	532,987	29,260	1,557,397	—
—	—	383,855	19,306	7,213,428	—
—	29,562	239,799	—	269,361	—
93,928	1,204,702	121,176	31,884	1,543,207	298,040
—	—	91,750	3,974,873	4,085,765	—
—	—	—	—	5,038,000	—
1,056	—	—	10,466	990,257	—
6,469	—	72,336	1,272	216,206	2,312
—	—	2,895	—	2,895	—
150,846	16,054	5,930,192	19,589	10,942,625	601,791
—	12,279	120,453	1,149	158,043	56,977
(72,131)	(7,416)	(2,013,316)	(16,200)	(4,390,870)	(497,577)
—	—	261,461	—	1,772,344	8,555
—	203,789	1,361	87	305,689	—
—	—	2,000	20,798	23,798	—
1,175,318	1,458,970	5,747,833	4,312,115	31,650,680	470,098
$ 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
LIABILITIES			
Current liabilities:			
Accounts payable	$ 59,222	$ 88,025	$ 112,609
Due to other funds	—	34,024	25,736
Due to component units	—	—	29,173
Due to other governments	—	142,048	—
Deferred revenue	—	—	—
Deposits	—	—	—
Contracts and notes payable	—	—	—
Advance collections	—	—	5,776
Interest payable	57,000	17,370	117,942
Benefits payable	—	—	—
Current portion of long-term obligations	592,000	192,928	444,407
Other current liabilities	6,000	—	—
Total current liabilities	714,222	474,395	735,643
Noncurrent liabilities:			
Interfund payables	—	—	—
Loans payable	—	—	—
Lottery prizes and annuities	—	—	—
Compensated absences payable	—	32,939	—
Certificates of participation, commercial paper, and other borrowings	—	28,783	—
Capital lease obligations	—	—	—
General obligation bonds payable	—	302,920	—
Revenue bonds payable	6,667,000	2,303,201	10,438,567
Net other postemployment benefits obligation	3,778	117,924	—
Pollution remediation obligations	—	8,920	—
Deferred revenue	—	—	—
Other noncurrent liabilities	1,000	475,890	—
Total noncurrent liabilities	6,671,778	3,270,577	10,438,567
Total liabilities	**7,386,000**	**3,744,972**	**11,174,210**
NET ASSETS			
Investment in capital assets, net of related debt	—	684,025	—
Restricted:			
Nonexpendable	—	—	—
Expendable:			
Construction	—	521,406	223,149
Debt service	—	—	16,309
Security for revenue bonds	—	—	—
Lottery	—	—	—
Unemployment programs	—	—	—
Other purposes	—	—	—
Total expendable	—	521,406	239,458
Unrestricted	—	—	—
Total net assets (deficit)	**—**	**1,205,431**	**239,458**
Total liabilities and net assets	**$ 7,386,000**	**$ 4,950,403**	**$ 11,413,668**

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

Business-type Activities - Enterprise Funds					**Governmental Activities**
State Lottery	**Unemployment Programs**	**California State University**	**Nonmajor Enterprise**	**Total**	**Internal Service Funds**
$ 42,807	$ 3	$ 171,028	$ 6,180	$ 479,874	$ 156,149
283,821	28,706	—	2,909	375,196	128,149
—	—	—	—	29,173	484
—	48,812	—	305	191,165	612
—	—	262,312	73	262,385	—
—	—	—	71	71	7,683
—	—	—	—	—	9,116
2,830	309,785	—	45	318,436	272,700
—	—	—	15,950	208,262	—
—	726,340	—	—	726,340	—
483,275	—	292,699	77,161	2,082,470	16,837
—	100,452	336,221	309	442,982	7,761
812,733	1,214,098	1,062,260	103,003	5,116,354	599,491
—	—	—	—	—	140,260
—	8,968,936	—	—	8,968,936	—
822,778	—	—	—	822,778	—
7,451	45,942	87,886	2,677	176,895	146,157
—	—	38,542	—	67,325	—
—	—	758,025	—	758,025	—
—	—	—	733,519	1,036,439	—
—	—	3,516,055	579,097	23,503,920	—
26,906	84,288	172,587	5,299	410,782	289,267
—	—	—	—	8,920	—
—	—	11,387	—	11,387	—
1,863	—	226,469	99,501	804,723	47,408
858,998	9,099,166	4,810,951	1,420,093	36,570,130	623,092
1,671,731	**10,313,264**	**5,873,211**	**1,523,096**	41,686,484	**1,222,583**
85,184	224,706	561,419	5,924	1,561,258	149,398
—	—	21,584	—	21,584	—
—	—	20,835	—	765,390	—
—	—	3,846	222,106	242,261	—
—	—	—	238,166	238,166	—
155,599	—	—	—	155,599	—
—	2,932,741	—	—	2,932,741	—
—	—	41,360	195,519	236,879	—
155,599	2,932,741	66,041	655,791	4,571,036	—
(85,185)	(8,307,935)	1,915,707	3,130,564	(3,346,849)	355,086
155,598	**(5,150,488)**	**2,564,751**	**3,792,279**	**2,807,029**	**504,484**
$ 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.

Statement of Revenues, Expenses, and Changes in Fund Net Assets

Proprietary Funds

Year Ended June 30, 2012

(amounts in thousands)

	Electric Power	Water Resources	Public Building Construction
OPERATING REVENUES			
Unemployment and disability insurance	$ —	$ —	$ —
Lottery ticket sales	—	—	—
Power sales	34,000	148,360	—
Student tuition and fees	—	—	—
Services and sales	—	897,452	—
Investment and interest	—	—	4,012
Rent	—	—	409,142
Grants and contracts	—	—	—
Other	—	—	13,806
Total operating revenues	**34,000**	**1,045,812**	**426,960**
OPERATING EXPENSES			
Lottery prizes	—	—	—
Power purchases (net of recoverable power costs)	8,000	271,377	—
Personal services	—	258,226	—
Supplies	—	—	—
Services and charges	21,000	322,801	13,211
Depreciation	—	87,400	—
Scholarships and fellowships	—	—	—
Distributions to beneficiaries	—	—	—
Interest expense	—	—	384,400
Amortization (recovery) of deferred charges	—	—	6,242
Other	—	—	—
Total operating expenses	**29,000**	**939,804**	**403,853**
Operating income (loss)	5,000	106,008	23,107
NONOPERATING REVENUES (EXPENSES)			
Donations and grants	—	—	—
Private gifts	—	—	—
Investment and interest income	881,000	—	—
Interest expense and fiscal charges	(886,000)	(107,770)	—
Lottery payments for education	—	—	—
Other	—	1,762	1,300
Total nonoperating revenues (expenses)	**(5,000)**	**(106,008)**	**1,300**
Income (loss) before capital contributions and transfers	—	—	24,407
Capital contributions	—	—	—
Transfers in	—	—	386
Transfers out	—	—	—
Change in net assets	—	—	24,793
Total net assets (deficit), July 1, 2011	—	**1,205,431**	**214,665**
Total net assets (deficit), June 30, 2012	**$ —**	**$ 1,205,431**	**$ 239,458**

*Restated

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

	Business-type Activities - Enterprise Funds					Governmental Activities
	State Lottery	**Unemployment Programs**	**California State University**	**Nonmajor Enterprise**	**Total**	**Internal Service Funds**
	$ —	$ 21,947,781	$ —	$ —	$ 21,947,781	$ —
	4,371,493	—	—	—	4,371,493	—
	—	—	—	—	182,360	—
	—	—	2,065,126	—	2,065,126	—
	—	—	424,652	81,575	1,403,679	2,308,872
	—	—	—	128,309	132,321	—
	—	—	—	11,906	421,048	—
	—	—	92,915	—	92,915	—
	—	—	177,126	1,262	192,194	—
	4,371,493	**21,947,781**	**2,759,819**	**223,052**	**30,808,917**	**2,308,872**
	2,560,307	—	—	—	2,560,307	—
	—	—	—	—	279,377	—
	62,938	168,430	3,774,537	14,819	4,278,950	842,828
	4,886	—	1,162,856	—	1,167,742	13,298
	437,361	96,179	—	83,952	974,504	1,419,274
	7,751	2,796	235,825	304	334,076	47,686
	—	—	833,487	—	833,487	—
	—	20,837,244	—	—	20,837,244	—
	—	—	—	66,526	450,926	—
	—	—	—	4,115	10,357	—
	—	—	—	1,303	1,303	—
	3,073,243	**21,104,649**	**6,006,705**	**171,019**	**31,728,273**	**2,323,086**
	1,298,250	843,132	(3,246,886)	52,033	(919,356)	(14,214)
	—	—	1,249,995	—	1,249,995	—
	—	—	39,835	—	39,835	—
	112,433	—	59,067	2,546	1,055,046	922
	(58,226)	(7,009)	(174,692)	(4,984)	(1,238,681)	(664)
	(1,300,240)	—	—	—	(1,300,240)	—
	365	—	56,402	(8,809)	51,020	(370)
	(1,245,668)	**(7,009)**	**1,230,607**	**(11,247)**	**(143,025)**	**(112)**
	52,582	836,123	(2,016,279)	40,786	(1,062,381)	(14,326)
	—	—	—	106,057	106,057	—
	—	—	2,031,706	—	2,032,092	184
	—	—	—	(1,060)	(1,060)	(55,729)
	52,582	836,123	15,427	145,783	1,074,708	(69,871)
	103,016	**(5,986,611)** *	**2,549,324**	**3,646,496** *	**1,732,321**	**574,355**
	$ 155,598	**$ (5,150,488)**	**$ 2,564,751**	**$ 3,792,279**	**$ 2,807,029**	**$ 504,484**

Statement of Cash Flows

Proprietary Funds

Year Ended June 30, 2012

(amounts in thousands)

	Electric Power	Water Resources
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers/employers	$ 132,000	$ 1,045,826
Receipts from interfund services provided	—	—
Payments to suppliers	(926,000)	(478,686)
Payments to employees	—	(258,226)
Payments for interfund services used	—	—
Payments for Lottery prizes	—	—
Claims paid to other than employees	—	—
Other receipts (payments)	35,000	(36,488)
Net cash provided by (used in) operating activities	**(759,000)**	**272,426**
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Changes in interfund payables and loans payable	—	—
Proceeds from bonds	1,118,000	—
Receipts of bond charges	855,000	—
Retirement of general obligation bonds	—	—
Retirement of revenue bonds	(1,676,000)	—
Interest paid on operating debt	(354,000)	—
Transfers in	—	—
Transfers out	—	—
Grants received/(provided)	—	—
Lottery payments for education	—	—
Net cash provided by (used in) noncapital financing activities	**(57,000)**	**—**
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Changes in interfund payables and loans payable	—	—
Acquisition of capital assets	—	(98,887)
Proceeds from sale of capital assets	—	—
Proceeds from notes payable and commercial paper	—	75,444
Principal paid on notes payable and commercial paper	—	(101,239)
Proceeds from capital leases	—	—
Payment on capital debt and leases	—	—
Retirement of general obligation bonds	—	(58,165)
Proceeds from revenue bonds	—	395,249
Retirement of revenue bonds	—	(399,366)
Interest paid	—	(139,367)
Grants received	—	—
Net cash provided by (used in) capital and related financing activities	**—**	**(326,331)**
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	—	(302,608)
Proceeds from maturity and sale of investments	—	302,608
Change in interfund receivables and loans receivable	—	1,898
Earnings (loss) on investments	23,000	6,990
Net cash provided by (used in) investing activities	**23,000**	**8,888**
Net increase (decrease) in cash and pooled investments	(793,000)	(45,017)
Cash and pooled investments at July 1, 2011	**2,658,000**	**530,667**
Cash and pooled investments at June 30, 2012	**$ 1,865,000**	**$ 485,650**

* Restated

Business-type Activities - Enterprise Funds						Governmental Activities
Public Building Construction	**State Lottery**	**Unemployment Programs**	**California State University**	**Nonmajor Enterprise**	**Total**	**Internal Service Funds**
$ 774,056	$ 4,350,800	$ 21,193,303	$ 2,506,106	$ 126,739	$ 30,128,830	$ 2,307,451
—	—	17,030	—	3,301	20,331	146,624
(13,635)	(171,001)	(96,180)	(997,337)	(91,499)	(2,774,338)	(1,460,582)
—	(49,362)	(145,677)	(3,724,608)	(6,104)	(4,183,977)	(759,781)
—	(107,465)	—	—	(298)	(107,763)	(54,371)
—	(2,752,982)	—	—	—	(2,752,982)	—
—	(295,818)	(20,898,564)	—	(4)	(21,194,386)	—
(378,548)	105,959	(651,320)	(560,295)	202,471	(1,283,221)	(12,771)
381,873	**1,080,131**	**(581,408)**	**(2,776,134)**	**234,606**	**(2,147,506)**	**166,570**
—	—	(1,989,046)	5,283	4,637	(1,979,126)	20,983
—	—	—	—	321,585	1,439,585	—
—	—	—	—	—	855,000	—
—	—	—	—	(363,500)	(363,500)	—
—	—	—	—	(120,170)	(1,796,170)	—
—	—	—	—	(5,954)	(359,954)	(1)
386	—	—	1,927,663	—	1,928,049	3,531
—	—	—	—	(10,552)	(10,552)	(55,729)
—	—	—	1,317,943	(83)	1,317,860	—
—	(1,314,010)	—	—	—	(1,314,010)	—
386	**(1,314,010)**	**(1,989,046)**	**3,250,889**	**(174,037)**	**(282,818)**	**(31,216)**
—	—	—	—	13	13	—
(850,627)	(6,441)	(91,404)	(375,349)	(710)	(1,423,418)	(40,524)
—	135	—	278	150	563	1,419
—	—	—	46,793	—	122,237	—
—	—	—	—	—	(101,239)	(17,367)
—	—	—	22,523	—	22,523	—
—	—	—	(394,424)	—	(394,424)	—
—	—	—	—	—	(58,165)	—
2,470,233	—	—	587,165	—	3,452,647	—
(405,585)	—	—	(217,328)	—	(1,022,279)	—
—	—	—	—	—	(139,367)	(663)
—	—	—	20,462	108,641	129,103	—
1,214,021	**(6,306)**	**(91,404)**	**(309,880)**	**108,094**	**588,194**	**(57,135)**
—	(182,220)	—	(12,432,094)	—	(12,916,922)	—
—	307,503	2,798,647	12,266,828	2,987	15,678,573	—
—	—	(51,468)	—	3,523	(46,047)	(52,995)
—	25,106	(7,008)	39,596	2,645	90,329	907
—	**150,389**	**2,740,171**	**(125,670)**	**9,155**	**2,805,933**	**(52,088)**
1,596,280	(89,796)	78,313	39,205	177,818	963,803	26,131
1,207,412	**279,173**	**2,006,941** *	**406,137**	**531,753** *	**7,620,083**	**707,104**
$ 2,803,692	**$ 189,377**	**$ 2,085,254**	**$ 445,342**	**$ 709,571**	**$ 8,583,886**	**$ 733,235**

(continued)

Statement of Cash Flows (continued)

Proprietary Funds

Year Ended June 30, 2012

(amounts in thousands)

	Electric Power	Water Resources
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		
Operating income (loss)	$ 5,000	$ 106,008
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:		
Interest expense on operating debt	—	—
Depreciation	—	87,400
Provisions and allowances	—	—
Accrual of deferred charges	—	—
Amortization of discounts	—	—
Amortization of deferred charges	—	52,072
Other	—	(36,488)
Change in assets and liabilities:		
Receivables	—	(29,868)
Due from other funds	—	—
Due from other governments	—	3,838
Prepaid items	—	—
Inventories	—	3,331
Net investment in direct financing leases	—	—
Recoverable power costs (net)	(686,000)	—
Other current assets	37,000	—
Loans receivable	—	—
Interfund receivable	—	—
Accounts payable	(115,000)	57,612
Due to other funds	—	(2,523)
Due to component units	—	—
Due to other governments	—	31,044
Deposits	—	—
Contracts and notes payable	—	—
Advance collections	—	—
Interest payable	—	—
Other current liabilities	—	—
Interfund payables	—	—
Deferred revenue	—	—
Benefits payable	—	—
Lottery prizes and annuities	—	—
Compensated absences payable	—	—
Capital lease obligations	—	—
Other noncurrent liabilities	—	—
Total adjustments	(764,000)	166,418
Net cash provided by (used in) operating activities	**$ (759,000)**	**$ 272,426**
Noncash investing, capital, and financing activities		
Interest accreted on annuitized prizes	$ —	$ —
Interest accreted on bonds and other capitalized interest	—	—
Unclaimed Lottery prizes directly transferred to Education Fund	—	—
Unrealized gain (loss) on investment	—	—
Capital acquisitions financed through notes payable	—	—
Contributed capital assets	—	—
Acquisition of capital assets through capital lease	—	—
Change in accrued capital assets purchases	—	—
Gifts in-kind	—	—
Miscellaneous related to auxiliary organizations and capital assets	—	—
Amortization of bond premium and discount	—	—
Amortization of loss on refundings	—	—

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

	Business-type Activities - Enterprise Funds						Governmental Activities
	Public Building Construction	**State Lottery**	**Unemployment Programs**	**California State University**	**Nonmajor Enterprise**	**Total**	**Internal Service Funds**
	$ 23,107	$ 1,298,250	$ 843,132	$ (3,246,886)	$ 52,033	$ (919,356)	$ (14,214)
	—	—	—	—	—	—	740
	—	7,751	2,796	235,825	304	334,076	47,686
	—	7,732	—	—	4,596	12,328	—
	(16,850)	—	—	—	—	(16,850)	—
	—	—	—	—	67	67	—
	(269)	1,372	—	—	8,219	61,394	—
	588	241	—	40,551	116,548	121,440	—
	—	(48,941)	(1,057,585)	(31,219)	888	(1,166,725)	17,971
	(6,901)	(44)	38,527	—	1,485	33,067	114,728
	—	—	(83,499)	—	(2,780)	(82,441)	1,207
	—	—	—	(5,855)	4	(5,851)	4,700
	—	(1,232)	—	—	(104)	1,995	964
	372,145	—	—	—	16,946	389,091	—
	—	—	—	—	—	(686,000)	—
	—	(4)	(180)	—	(8,293)	28,523	—
	—	—	—	—	(114,960)	(114,960)	—
	—	(93,928)	(310,136)	—	168,773	(235,291)	—
	469	(10,570)	(1)	(2,650)	(2,719)	(72,859)	(47,266)
	898	(27)	(266,809)	—	861	(267,600)	(22,123)
	—	—	—	—	—	—	(415)
	(662)	—	(8,682)	—	283	21,983	(191)
	—	—	—	7	(11)	(4)	6,847
	—	—	—	—	—	—	(391)
	(981)	(307)	309,785	—	(29)	308,468	(30,698)
	10,329	—	—	—	(95)	10,234	—
	—	—	(4,602)	(1,135)	(245)	(5,982)	(6,367)
	—	—	—	—	—	—	298
	—	—	—	19,868	(72)	19,796	—
	—	—	(66,907)	8,746	(2,593)	(60,754)	34,448
	—	(86,938)	—	—	—	(86,938)	—
	—	485	2,777	(3,171)	35	126	23,943
	—	—	—	—	—	—	12,731
	—	6,291	19,976	209,785	(4,535)	231,517	21,972
	358,766	(218,119)	(1,424,540)	470,752	182,573	(1,228,150)	180,784
	$ 381,873	**$ 1,080,131**	**$ (581,408)**	**$ (2,776,134)**	**$ 234,606**	**$ (2,147,506)**	**$ 166,570**

(concluded)

	$ —	$ 58,226	$ —	$ —	$ —	$ 58,226	$ —
	—	20,408	—	—	—	20,408	—
	—	20,486	—	—	—	20,486	—
	—	67,517	—	—	—	67,517	—
	—	—	—	—	—	—	14,701
	—	—	—	14,995	—	14,995	—
	—	—	—	2,536	—	2,536	—
	—	—	—	(4,887)	—	(4,887)	—
	—	—	—	483	—	483	—
	—	—	—	2,523	—	2,523	—
	—	—	—	5,053	—	5,053	—
	—	—	—	1,926	—	1,926	—

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**	

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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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
ASSETS		
Current assets:		
Cash and pooled investments	$ 234,560	$ 130,128
Investments	4,642,005	1,552,387
Restricted assets:		
Cash and pooled investments	—	—
Investments	—	—
Receivables (net)	3,090,955	333,950
Due from primary government	1,191,072	—
Due from other governments	713,676	—
Prepaid items	—	—
Inventories	180,592	—
Other current assets	235,696	6,293
Total current assets	10,288,556	2,022,758
Noncurrent assets:		
Restricted assets:		
Cash and pooled investments	—	—
Investments	—	—
Investments	21,088,966	18,850,967
Receivables (net)	1,062,370	123,992
Loans receivable	—	—
Deferred charges	—	—
Capital assets:		
Land	780,082	62,874
Collections – nondepreciable	344,451	—
Buildings and other depreciable property	37,551,359	529,622
Intangible assets – amortizable	470,701	167,430
Less: accumulated depreciation/amortization	(16,748,710)	(360,498)
Construction in progress	2,785,835	6,319
Intangible assets – nonamortizable	—	—
Other noncurrent assets	369,888	—
Total noncurrent assets	47,704,942	19,380,706
Total assets	**$ 57,993,498**	**$ 21,403,464**

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

California Housing Finance Agency	Public Employees' Benefits	Nonmajor Component Units	Total
$ 1,872,182	$ 74,457	$ 527,416	$ 2,838,743
339,955	10,306	301,577	6,846,230
—	—	85,918	85,918
—	—	36,556	36,556
224,219	1,765	324,135	3,975,024
—	108,410	696	1,300,178
—	32,944	—	746,620
442	—	941	1,383
—	—	258	180,850
86,273	—	39,815	368,077
2,523,071	227,882	1,317,312	16,379,579
—	—	91,539	91,539
—	—	5,344	5,344
577,505	4,040,671	1,303,466	45,861,575
—	—	263,052	1,449,414
5,295,050	—	345,803	5,640,853
23,860	—	1,219	25,079
—	—	122,201	965,157
—	—	7,718	352,169
2,153	—	1,932,983	40,016,117
—	—	19,810	657,941
(1,034)	—	(894,519)	(18,004,761)
—	—	19,650	2,811,804
—	—	5,213	5,213
328,766	—	55,379	754,033
6,226,300	4,040,671	3,278,858	80,631,477
$ 8,749,371	**$ 4,268,553**	**$ 4,596,170**	**$ 97,011,056**

(continued)

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

Statement of Net Assets (continued)

Discretely Presented Component Units - Enterprise Activity

	University of California	State Compensation Insurance
LIABILITIES		
Current liabilities:		
Accounts payable	$ 2,035,169	$ 46,383
Due to other governments	—	—
Deferred revenue	899,351	—
Deposits	459,718	—
Contracts and notes payable	—	—
Advance collections	—	60,271
Interest payable	—	—
Securities lending obligations	1,695,677	—
Benefits payable	—	1,642,424
Current portion of long-term obligations	1,913,409	68,043
Other current liabilities	2,490,272	152,089
Total current liabilities	9,493,596	1,969,210
Noncurrent liabilities:		
Benefits payable	—	11,745,923
Compensated absences payable	258,300	—
Certificates of participation, commercial paper, and other borrowings	—	—
Capital lease obligations	2,504,552	—
Revenue bonds payable	12,319,438	—
Net other postemployment benefits obligation	6,447,678	401,953
Other noncurrent liabilities	3,565,909	202,475
Total noncurrent liabilities	25,095,877	12,350,351
Total liabilities	**34,589,473**	**14,319,561**
NET ASSETS		
Investment in capital assets, net of related debt	11,359,688	405,747
Restricted:		
Nonexpendable -endowments	3,643,677	—
Expendable:		
Endowments and gifts	7,418,193	—
Education	934,910	—
Indenture	—	—
Employee benefits	—	—
Workers' compensation liability	—	6,678,156
Statute	—	—
Other purposes	—	—
Total expendable	8,353,103	6,678,156
Unrestricted	47,557	—
Total net assets	**23,404,025**	**7,083,903**
Total liabilities and net assets	**$ 57,993,498**	**$ 21,403,464**

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

California Housing Finance Agency	Public Employees' Benefits	Nonmajor Component Units	Total
$ 96,176	$ 402,678	$ 92,219	$ 2,672,625
19,881	—	—	19,881
—	—	72,106	971,457
227,246	—	2,329	689,293
—	—	21,139	21,139
23,569	—	182	84,022
84,955	—	2,093	87,048
—	—	—	1,695,677
—	—	—	1,642,424
111,536	37,710	152,258	2,282,956
353	72,388	122,322	2,837,424
563,716	512,776	464,648	13,003,946
—	3,440,593	—	15,186,516
—	—	15,200	273,500
—	—	56,611	56,611
—	—	354,744	2,859,296
6,490,172	—	454,717	19,264,327
13,891	13,358	128,258	7,005,138
324,224	—	206,830	4,299,438
6,828,287	3,453,951	1,216,360	48,944,826
7,392,003	**3,966,727**	**1,681,008**	61,948,772
1,142	—	531,299	12,297,876
—	—	825,023	4,468,700
—	—	5,572	7,423,765
—	—	657,483	1,592,393
323,271	—	—	323,271
—	461,552	—	461,552
—	—	—	6,678,156
1,125,422	—	273,769	1,399,191
(655)	—	126,374	125,719
1,448,038	461,552	1,063,198	18,004,047
(91,812)	(159,726)	495,642	291,661
1,357,368	**301,826**	**2,915,162**	**35,062,284**
$ 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
OPERATING EXPENSES		
Personal services	$ 16,616,866	$ 733,504
Scholarships and fellowships	598,943	—
Supplies	2,381,963	—
Services and charges	279,795	95,163
Department of Energy laboratories	1,007,804	—
Depreciation	1,477,281	32,535
Distributions to beneficiaries	—	638,653
Interest expense and fiscal charges	631,619	—
Amortization of deferred charges		83,235
Grants provided	199,893	—
Other	3,110,066	134,971
Total operating expenses	**26,304,230**	**1,718,061**
PROGRAM REVENUES		
Charges for services	14,318,472	936,786
Operating grants and contributions	7,617,794	—
Capital grants and contributions	198,023	—
Total program revenues	**22,134,289**	**936,786**
Net revenues (expenses)	(4,169,941)	(781,275)
GENERAL REVENUES		
Investment and interest income (loss)	290,639	1,396,473
Other	2,108,620	177,787
Total general revenues	**2,399,259**	**1,574,260**
Change in net assets	(1,770,682)	792,985
Net assets, July 1, 2011	**25,174,707**	**6,290,918**
Net assets, June 30, 2012	**$ 23,404,025**	**$ 7,083,903**

* Restated

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

California Housing Finance Agency	Public Employees' Benefits	Nonmajor Component Units	Total
$ 30,460	$ —	$ 471,448	$ 17,852,278
—	—	45,873	644,816
—	—	8,090	2,390,053
34,008	3,112,279	1,146,408	4,667,653
—	—	—	1,007,804
278	—	72,047	1,582,141
—	—	—	638,653
191,265	—	40,997	863,881
105,833	—	111	189,179
—	—	—	199,893
168,930	902	65,698	3,480,567
530,774	**3,113,181**	**1,850,672**	33,516,918
408,252	2,185,066	1,065,852	18,914,428
75,142	—	559,922	8,252,858
—	—	13,628	211,651
483,394	**2,185,066**	**1,639,402**	27,378,937
(47,380)	(928,115)	(211,270)	(6,137,981)
—	150,967	(1,315)	1,836,764
18,595	32,810	273,212	2,611,024
18,595	**183,777**	**271,897**	**4,447,788**
(28,785)	(744,338)	60,627	(1,690,193)
1,386,153 *	**1,046,164**	**2,854,535** *	**36,752,477**
$ 1,357,368	**$ 301,826**	**$ 2,915,162**	**$ 35,062,284**

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Notes to the Financial Statements - Index

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.

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)

	Fair Value
Investment Type	
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
Short-term fixed-income investments		
Money market securities	$ 1,161,114	$ 602,179
Corporate credit obligations	158,970	250,906
U.S. Government and agency obligations	200,540	285,038
Asset-backed securities	71,151	34,200
Total	**$ 1,591,775**	**$ 1,172,323**

	0-1 day	2-6 days
Securities lending collateral		
Money markets securities	$ —	$ 571,004
Repurchase agreements	1,415,777	1,675,486
Corporate credit obligations	—	355,256
U.S. Government and Agency Obligations	—	640,476
Asset backed securities	—	—
Total	**$ 1,415,777**	**$ 3,242,222**

1 Effective duration is described in the paragraph preceding this table.

91-120 days	121-180 days	181-365 days	366+ days	Fair Value at Year End
$ —	$ 42,977	$ 75,000	$ —	$ 1,881,270
—	—	—	9,497	419,373
218,923	415,834	539,587	294,621	1,954,543
18,686	4,200	—	—	128,237
$ 237,609	**$ 463,011**	**$ 614,587**	**$ 304,118**	**$ 4,383,423**

7-29 days	30-59 days	60-89 days	90+ days	Fair Value at Year End
$ 2,640,562	$ 3,304,195	$ 1,244,803	$ 30,000	$ 7,790,564
70,000	250,000	—	—	3,411,263
1,412,265	1,359,201	1,197,614	142,814	4,467,150
71,218	44,991	24,992	554,397	1,336,074
4,978,531	327,642	309,096	139,144	5,754,413
$ 9,172,576	**$ 5,286,029**	**$ 2,776,505**	**$ 866,355**	**$ 22,759,464**

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
Argentine Peso	$ —	$ —	$ —	$ —
Australian Dollar	34,196	4,477,491	62,913	221,214
Bermuda Dollar	—	1,905	—	—
Brazilian Real	3,313	1,975,478	—	72,623
British Pound Sterling	57,594	8,349,721	2,728	917,077
Canadian Dollar	57,743	5,601,042	268,599	332,691
Cayman Islands Dollar	—	6,475	—	—
Chilean Peso	76	226,066	—	1,049
Chinese Yuan	—	5,797	—	—
Columbian Peso	70	35,436	—	—
Czech Koruna	398	68,971	—	—
Danish Krone	4,204	743,089	—	5,405
Egyptian Pound	8,697	99,358	—	—
Euro	319,309	20,761,440	3,368,784	1,749,695
Guatemalan Quetzal	—	—	—	—
Guernsey Pound	—	3,209	—	—
Hong Kong Dollar	48,280	4,079,692	—	—
Hungarian Forint	118	92,045	—	—
Indian Rupee	2,477	1,072,246	—	71
Indonesian Rupiah	2,813	590,032	—	1,373
Israeli Shekel	2,441	266,504	—	1
Japanese Yen	152,743	12,203,975	136,145	1,352,083
Korean Won	—	5,100	—	—
Malaysian Ringgit	1,495	452,275	—	—
Mexican Peso	9,049	662,591	—	149,261
Moroccan Dirham	61	2,912	—	—
New Romanian Leu	—	—	—	—
New Russian Ruble	—	3,548	—	—
New Taiwan Dollar	8,062	1,603,668	—	—
New Turkish Lira	56	324,911	—	—
New Zealand Dollar	694	90,977	—	49,239
Norwegian Krone	4,427	626,617	—	23,700
Pakistan Rupee	569	48,663	—	—
Peruvian Nouveau Sol	17	5,268	—	—
Philippine Peso	316	143,263	—	—
Polish Zloty	949	194,705	—	50,955
Pound Sterling	46,263	3,052,843	—	98,894
Singapore Dollar	4,463	1,051,617	—	16,868
South African Rand	3,159	1,560,359	—	54,488
South Korean Won	2,661	2,766,860	—	—
Sri Lanka Rupee	3	—	—	—
Swedish Krona	8,749	1,613,787	—	56,180
Swiss Franc	25,818	4,011,571	—	2,122
Thailand Baht	2,406	458,594	—	—
Tunisian Dinar	—	—	—	—
Turkish Lira	428	207,015	—	—
UAE Dirham	100	30,032	—	—
U.S. Dollar	—	8,646	—	—
Total investments subject to foreign currency risk	**$ 814,217**	**$ 79,585,794**	**$ 3,839,169**	**$ 5,154,989**

Real Estate	Spot Contracts	Forward Contracts	Total
$ —	$ —	$ 107	$ 107
368,095	(13)	(17,261)	5,146,635
—	—	—	1,905
884,481	(6)	61	2,935,950
358,314	—	20,203	9,705,637
701,090	(6)	8,268	6,969,427
—	—	—	6,475
—	—	(691)	226,500
410,678	43	(542)	415,976
—	—	(152)	35,354
—	—	(465)	68,904
—	(2)	(501)	752,195
—	—	10	108,065
874,270	(829)	49,347	27,122,016
56,275	—	—	56,275
—	—	—	3,209
613,537	—	(395)	4,741,114
—	—	538	92,701
420,853	—	316	1,495,963
—	(3)	(178)	594,037
1,663	—	497	271,106
476,400	1	(2,231)	14,319,116
—	—	—	5,100
25,849	11	(22)	479,608
179,938	—	1,285	1,002,124
—	—	1	2,974
—	—	77	77
—	—	606	4,154
—	—	(140)	1,611,590
—	—	—	324,967
1,705	—	(2,687)	139,928
4,203	(11)	231	659,167
—	—	—	49,232
—	(92)	46	5,239
—	—	(77)	143,502
—	—	(813)	245,796
—	(52)	512	3,198,460
94,524	(1)	(550)	1,166,921
—	77	(1,479)	1,616,604
—	—	(52)	2,769,469
—	—	—	3
180,451	(30)	(6,618)	1,852,519
23,423	(7)	4,451	4,067,378
—	—	219	461,219
—	—	30	30
—	—	121	207,564
—	—	—	30,132
—	—	—	8,646
$ 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)

	University of California		University of California Foundations	
Investment Type	**Fair Value at Year End**	**Effective Duration[1]**	**Fair Value at Year End**	**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	—	—	—	—
Municipal securities	—	—	—	—
Other government	—	—	—	—
Corporate bonds	—	—	—	—
Special revenue	—	—	—	—
Mortgage-backed securities	—	—	—	—
Other	5,862	14.40	17,903	4.30
Total	**$ 12,204,191**		**$ 1,260,949**	

[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.

State Compensation Insurance Fund		California Housing Finance Agency	
Fair Value at Year End	Weighted Average Maturity (in years)	Fair Value at Year End	Effective Duration[1]
$ —	—	$ —	—
—	—	—	—
—	—	—	—
—	—	—	—
—	—	—	—
—	—	—	—
—	—	—	—
—	—	—	—
—	—	—	—
—	—	—	—
—	—	—	—
—	—	—	—
—	—	—	—
—	—	—	—
—	—	—	—
—	—	—	—
—	—	—	—
3,705,379	3.80	577,505	16.31
673,353	15.09	—	—
302,330	3.32	—	—
5,352,157	5.31	—	—
1,904,569	15.08	—	—
8,465,566	24.14	—	—
—	—	128,102	—
$ 20,403,354		**$ 705,607**	

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	
	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
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
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.	—	—
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
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

University of California Foundations	
Fair Value at Year End	Effective Duration
$ 71,999	1.40
15,013	0.50
16,043	1.20
—	—
793	2.30
—	—

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
Current governmental activities			
General Fund	$ 10,847,461	$ —	$ —
Federal Fund	—	—	—
Transportation Fund	481,696	—	—
Environmental and Natural Resources	—	—	—
Nonmajor governmental funds	64,957	—	—
Internal service funds	—	—	—
Total current governmental activities	**$ 11,394,114**	**$ —**	**$ —**
Amounts not scheduled for collection during the subsequent year	**$ 1,512,526**	**$ —**	**$ —**
Current business-type activities			
Water Resources Fund	$ —	$ —	$ —
Public Building Construction Fund	—	176,113	—
State Lottery Fund	—	—	303,164
Unemployment Programs Fund	—	—	—
California State University	—	—	—
Nonmajor enterprise funds	—	—	—
Adjustment:			
Account reclassification	—	(176,113)	—
Total current business-type activities	**$ —**	**$ —**	**$ 303,164**
Amounts not scheduled for collection during the subsequent year	**$ —**	**$ —**	**$ —**

Unemployment Programs	California State University	Other	Total
$ —	$ —	$ 930,714	$ 11,778,175
—	—	714	714
—	—	292,138	773,834
—	—	420,458	420,458
—	—	2,566,290	2,631,247
—	—	129,073	129,073
$ —	**$ —**	**$ 4,339,387**	**$ 15,733,501**
$ —	**$ —**	**$ 321,266**	**$ 1,833,792**
$ —	$ —	$ 110,649	$ 110,649
—	—	—	176,113
—	—	—	303,164
1,299,833	—	—	1,299,833
—	142,685	—	142,685
—	—	50,819	50,819
—	—	(2,492)	(178,605)
$ 1,299,833	**$ 142,685**	**$ 158,976**	**$ 1,904,658**
$ 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**

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
Governmental activities		
General Fund	$ 117,619	$ 763,964
Federal Fund	171,415	364,367
Transportation Fund	—	32
Environmental and Natural Resources Fund	5,040	17,623
Nonmajor governmental funds	6,877	427,547
Internal service funds	77	—
Adjustment:		
Fiduciary funds	10,506,349	10,897,090
Total governmental activities	**$ 10,807,377**	**$ 12,470,623**
Business-type activities		
Electric Power Fund	$ —	$ —
Water Resources Fund	—	—
Public Building Construction Fund	—	—
State Lottery Fund	—	—
Unemployment Program Fund	—	3
California State University	171,028	—
Nonmajor enterprise funds	1,000	307
Adjustment:		
Fiduciary funds	—	—
Total business-type activities	**$ 172,028**	**$ 310**

Resources	Business and Transportation	General Government and Others	Total
$ 127,868	$ 10,033	$ 797,579	$ 1,817,063
77,361	486,147	221,052	1,320,342
7,631	401,651	39,377	448,691
406,546	32	5,240	434,481
6,416	75,883	436,747	953,470
14,153	1,248	140,671	156,149
111	55,902	653,559	22,113,011
$ 640,086	**$ 1,030,896**	**$ 2,294,225**	**$ 27,243,207**
$ 59,222	$ —	$ —	$ 59,222
88,025	—	—	88,025
—	—	112,609	112,609
—	—	42,807	42,807
—	—	—	3
—	—	—	171,028
9	182	4,682	6,180
—	17	249	266
$ 147,256	**$ 199**	**$ 160,347**	**$ 480,140**

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
Governmental activities		
Loans payable	$ 2,122,507	$ 1,008,858
Compensated absences payable	3,738,596	1,325,290
Certificates of participation and commercial paper	1,329,848	210,045
Accreted interest	5,492	428
Certificates of participation and commercial paper payable	1,335,340	210,473
Capital lease obligations	4,882,233	528,804
General obligation bonds	78,454,755	8,256,025
Premiums/discounts/other	1,014,330	732,539
General obligation bonds payable	79,469,085	8,988,564
Revenue bonds	7,722,528	—
Accreted interest	271,721	62,455
Premiums/discounts/other	(483,157)	—
Revenue bonds payable	7,511,092	62,455
Net other postemployment benefits obligation	9,603,565 *	4,489,968
Pollution remediation obligations	804,275	191,948
Proposition 98 funding guarantee	3,086,851	282,655
Mandated costs	5,883,643	673,019
Workers' compensation	3,029,856	554,700
Other long-term obligations	3,242,566	443,780
Total governmental activities	**$ 124,709,609**	**$ 18,760,514**
Business-type activities		
Loans payable	$ 10,957,982	$ —
Lottery prizes and annuities	1,351,702	2,727,819
Compensated absences payable	294,463	104,384
Certificates of participation and commercial paper	139,974	104,503
Capital Lease Obligations	791,489	26,198
General obligation bonds	1,220,015	—
Premiums/discounts/other	(1,376)	75
General obligation bonds payable	1,218,639	75
Revenue bonds	23,224,228	4,013,335
Premiums/discounts/other	66,087	360,603
Revenue bonds payable	23,290,315	4,373,938
Net other postemployment benefits obligation	318,232 *	147,821
Other long-term obligations	845,141	89,071
Total business-type activities	**$ 39,207,937**	**$ 7,573,809**

* Restated

Deductions	Balance June 30, 2012	Due Within One Year	Noncurrent Liabilities
$ —	$ 3,131,365	$ —	$ 3,131,365
1,243,415	3,820,471	18,929	3,801,542
1,496,845	43,048	4,601	38,447
2,870	3,050	3,050	—
1,499,715	46,098	7,651	38,447
234,696	5,176,341	242,948	4,933,393
7,262,965	79,447,815	2,072,555	77,375,260
134,573	1,612,296	89,380	1,522,916
7,397,538	81,060,111	2,161,935	78,898,176
163,557	7,558,971	149,048	7,409,923
—	334,176	—	334,176
(11,208)	(471,949)	(11,686)	(460,263)
152,349	7,421,198	137,362	7,283,836
1,625,650	12,467,883	—	12,467,883
58,593	937,630	68,593	869,037
1,121,830	2,247,676	—	2,247,676
142,580	6,414,082	80,221	6,333,861
381,784	3,202,772	347,062	2,855,710
317,887	3,368,459	60,121	3,308,338
$ 14,176,037	**$ 129,294,086**	**$ 3,124,822**	**$ 126,169,264**
$ 1,989,046	$ 8,968,936	$ —	$ 8,968,936
2,773,468	1,306,053	483,275	822,778
99,683	299,164	122,269	176,895
177,152	67,325	—	67,325
—	817,687	59,662	758,025
100,080	1,119,935	82,195	1,037,740
—	(1,301)	—	(1,301)
100,080	1,118,634	82,195	1,036,439
2,755,515	24,482,048	1,269,675	23,212,373
117,820	308,870	17,323	291,547
2,873,335	24,790,918	1,286,998	23,503,920
55,271	410,782	—	410,782
61,111	873,101	48,071	825,030
$ 8,129,146	**$ 38,652,600**	**$ 2,082,470**	**$ 36,570,130**

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**	

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		State Compensation Insurance Fund	
	Capital	Operating	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**

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)

Year Ending June 30	Primary Government: Governmental Activities Principal	Primary Government: Governmental Activities Interest	Primary Government: Business-type Activities Principal	Primary Government: Business-type Activities Interest*	Discretely Presented Component Units Principal	Discretely Presented Component Units 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.

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)**

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		Other noncurrent		
Pay fixed, receive variable	$ (22,404)	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

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**
$ —	$ —	$ —	$ —	$ 700,000	$ —	$ 64,038	$ 13,013,661	$ 15,266,286
—	—	—	34,599	—	1,536	13,909	5,785,643	9,637,470
—	279	—	—	—	—	6,822	59,005	120,774
—	—	—	—	—	—	12,906	—	13,095
—	—	—	—	2,650	51	29,780	3,251,023	3,639,383
—	**279**	**—**	**34,599**	**702,650**	**1,587**	**127,455**	**22,109,332**	**28,677,008**
—	—	—	—	—	—	34,024	—	34,024
—	—	—	—	—	—	24,556	256	25,736
—	—	—	—	—	—	—	—	283,821
—	—	—	—	—	—	664	—	28,706
—	—	—	—	—	—	28	10	2,909
—	**—**	**—**	**—**	**—**	**—**	**59,272**	**266**	**375,196**
1,288	**28,340**	**476**	**2,286**	**—**	**3,241**	**4,661**	**3,679**	**128,149**
$ 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 Payables				
Interfund Receivables	**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 Payables							
Water Resources Fund	State Lottery Fund	Unemployment Programs Fund	California State University Fund	Nonmajor Enterprise Funds	Internal Service Funds	Fiduciary Funds	Total
$ —	$ 93,928	$ 1,204,702	$ 121,176	$ 31,884	$ 287,632	$ 1,099,090	$ 10,584,696
—	—	—	—	—	2,745	—	2,745
—	—	—	—	—	—	—	4,272
—	—	—	—	—	—	—	6,117
—	**93,928**	**1,204,702**	**121,176**	**31,884**	**290,377**	**1,099,090**	**10,597,830**
91,517	**—**	**—**	**—**	**—**	**7,663**	**—**	**140,260**
$ 91,517	**$ 93,928**	**$ 1,204,702**	**$ 121,176**	**$ 31,884**	**$ 298,040**	**$ 1,099,090**	**$ 10,738,090**

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**
Governmental funds			
General Fund	$ —	$ —	$ 853
Federal Fund	750,655	—	200,596
Transportation Fund	78,702	—	13,412
Environmental and Natural Resources Fund	5,250	—	—
Nonmajor governmental funds	386,676	19	25,740
Total governmental funds	**1,221,283**	**19**	**240,601**
Nonmajor enterprise funds	**674**	—	—
Internal service funds	**14,153**	—	—
Total primary government	**$ 1,236,110**	**$ 19**	**$ 240,601**

Transferred To				
Nonmajor Governmental Funds	**Public Building Construction Fund**	**California State University Fund**	**Internal Service Funds**	**Total**
$ 1,346,140	$ —	$ 1,976,502	$ —	$ 3,323,495
1,748,805	—	—	—	2,700,056
797,175	—	—	—	889,289
22,372	—	—	—	27,622
90,846	—	55,204	184	558,669
4,005,338	**—**	**2,031,706**	**184**	**7,499,131**
—	**386**	**—**	**—**	**1,060**
41,576	**—**	**—**	**—**	**55,729**
$ 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		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.

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
Assets		
Due from other funds	$ 26	$ 1,799
Due from other governments	—	226,197
Other current assets	26,791	273,594
Other noncurrent assets	46,413	2,944,613
Total assets	**$ 73,230**	**$ 3,446,203**
Liabilities		
Due to other funds	$ —	$ 420
Other current liabilities	18,330	24,844
Noncurrent liabilities	19,705	93,194
Total liabilities	**38,035**	**118,458**
Net assets		
Investment in capital assets, net of related debt	—	—
Restricted	35,195	270,733
Unrestricted	—	3,057,012
Total net assets	**35,195**	**3,327,745**
Total liabilities and net assets	**$ 73,230**	**$ 3,446,203**

Condensed Statement of Revenues, Expenses, and Changes in Fund Net Assets
Year Ended June 30, 2012

	High Technology Education	State Water Pollution Control
Operating revenues	$ 8,452	$ 56,437
Depreciation expense	—	—
Other operating expenses	(7,778)	(3,730)
Operating income (loss)	674	52,707
Nonoperating revenues (expenses)	—	(3,947)
Capital contributions and Transfers out	(386)	106,057
Change in net assets	288	154,817
Total net assets, July 1, 2011	**34,907**	**3,172,928**
Total net assets, June 30, 2012	**$ 35,195**	**$ 3,327,745**

Condensed Statement of Cash Flows
Year Ended June 30, 2012

	High Technology Education	State Water Pollution Control
Net cash provided by (used in):		
Operating activities	$ 22,014	$ (67,203)
Noncapital financing activities	(21,491)	(34,239)
Capital and related financing activities	—	108,641
Investing activities	—	1,165
Net decrease	**523**	**8,364**
Cash and pooled investments at July 1, 2011	**19,201**	**265,186**
Cash and pooled investments at June 30, 2012	**$ 19,724**	**$ 273,550**

Housing Loan	Total
$ 2,732	$ 4,557
—	226,197
218,762	519,147
1,180,166	4,171,192
$ 1,401,660	**$ 4,921,093**
$ —	$ 420
45,764	88,938
1,200,957	1,313,856
1,246,721	**1,403,214**
595	595
154,344	460,272
—	3,057,012
154,939	**3,517,879**
$ 1,401,660	**$ 4,921,093**
$ 84,090	$ 148,979
(56)	(56)
(83,185)	(94,693)
849	54,230
(5,589)	(9,536)
—	105,671
(4,740)	150,365
159,679	**3,367,514**
$ 154,939	**$ 3,517,879**
$ 168,639	$ 123,450
(112,058)	(167,788)
(40)	108,601
7,285	8,450
63,826	**72,713**
108,071	**392,458**
$ 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

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.

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			
	Budgeted Amounts		Actual	Variance With
	Original	Final	Amounts	Final Budget
REVENUES				
Corporation tax	$ 9,479,000	$ 8,208,000	$ 7,962,603	$ (245,397)
Intergovernmental	—	—	—	—
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	—	—	—	—
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
Other revenues	2,188,630	2,270,701	2,467,020	196,319
Total revenues	**87,192,929**	**85,024,000**	**85,568,507**	**544,507**
EXPENDITURES				
State and consumer services	623,031	618,683	599,779	18,904
Business and transportation	113,207	111,768	111,738	30
Resources	1,057,467	1,090,467	1,023,600	66,867
Health and human services	29,086,512	28,573,356	26,814,225	1,759,131
Correctional programs	8,458,618	7,956,758	7,863,879	92,879
Education	43,624,891	41,816,463	41,812,567	3,896
General government:				
Tax relief	442,185	442,185	434,385	7,800
Debt service	4,936,471	4,936,471	4,857,178	79,293
Other general government	4,790,186	4,280,251	4,113,726	166,525
Total expenditures	**93,132,568**	**89,826,402**	**87,631,077**	**2,195,325**
OTHER FINANCING SOURCES (USES)				
Transfers from other funds	—	—	1,998,586	—
Transfers to other funds	—	—	(551,328)	—
Other additions and deductions	—	—	1,333,253	—
Total other financing sources (uses)	—	—	**2,780,511**	—
Excess (deficiency) of revenues and other sources over (under) expenditures and other uses	—	—	717,941	—
Fund balances, July 1, 2011	—	—	**(2,326,541)** *	—
Fund balances, June 30, 2012	**$ —**	**$ —**	**$ (1,608,600)**	**$ —**

*Restated

Federal				Transportation			
Budgeted Amounts		Actual	Variance With	Budgeted Amounts		Actual	Variance With
Original	Final	Amounts	Final Budget	Original	Final	Amounts	Final Budget
$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
51,628,178	51,628,178	51,628,178	—	—	—	—	—
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
—	—	—	—	5,495,264	5,608,934	5,544,529	(64,405)
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
—	—	—	—	3,271,552	3,797,111	3,686,374	(110,737)
126	126	126	—	424,846	399,899	363,120	(36,779)
51,628,304	**51,628,304**	**51,628,304**	**—**	**9,191,662**	**9,805,944**	**9,594,023**	**(211,921)**
34,924	34,924	34,924	—	115,637	113,261	105,500	7,761
4,836,783	4,836,783	4,836,783	—	9,109,818	8,776,738	7,137,709	1,639,029
400,360	400,360	400,360	—	265,036	262,469	262,224	245
35,111,385	35,111,385	35,111,385	—	3,283	3,317	2,857	460
11,876	11,876	11,876	—	—	—	—	—
6,520,580	6,520,580	6,520,580	—	2,530	2,527	2,501	26
—	—	—	—	6,084	6,084	5,895	189
—	—	—	—	1,648	1,737	795	942
1,328,861	1,328,861	1,328,861	—	3,647,869	3,648,439	3,642,649	5,790
48,244,769	**48,244,769**	**48,244,769**	**—**	**13,151,905**	**12,814,572**	**11,160,130**	**1,654,442**
—	—	16,674,058	—	—	—	11,706,610	—
—	—	(20,013,388)	—	—	—	(12,322,592)	—
—	—	(44,079)	—	—	—	871,538	—
—	**—**	**(3,383,409)**	**—**	**—**	**—**	**255,556**	**—**
—	—	126	—	—	—	(1,310,551)	—
—	—	**10,611**	—	—	—	**27,001,380**	—
$ —	**$ —**	**$ 10,737**	**$ —**	**$ —**	**$ —**	**$ 25,690,829**	**$ —**

(continued)

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)

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.

We conducted this audit to comply with Section 8546.4 of the California Government Code. The Independent Auditor's Report provides the opinions we expressed on the State of California's basic financial statements.

Respectfully submitted,

Elaine M. Howle

ELAINE M. HOWLE, CPA
State Auditor

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