California State Auditor

April 2014

State of California

Financial Report
Year Ended June 30, 2013

Report 2013-001

The first five copies of each California State Auditor report are free. Additional copies are $3 each, payable by check or money order. You can obtain reports by contacting the California State Auditor's Office at the following address:

California State Auditor
621 Capitol Mall, Suite 1200
Sacramento, California 95814
916.445.0255 or TTY 916.445.0033

OR

This report is also available on our Web site at www.auditor.ca.gov.

The California State Auditor is pleased to announce the availability of an online subscription service.
For information on how to subscribe, visit our Web site at www.auditor.ca.gov.

Alternate format reports available upon request.

For questions regarding the contents of this report,
please contact Margarita Fernández, Chief of Public Affairs, at 916.445.0255.

For complaints of state employee misconduct, contact the California State Auditor's
Whistleblower Hotline: 1.800.952.5665.

California State Auditor

Elaine M. Howle State Auditor
Doug Cordiner Chief Deputy

April 21, 2014 2013-001

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, 2013. 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 $8.5 billion more than expenditures and other financing uses. The General Fund ended the fiscal year with a fund deficit of approximately $14.3 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, CPA
Deputy State Auditor

Contents

California State Auditor

Elaine M. Howle State Auditor
Doug Cordiner Chief Deputy

Independent Auditor's Report

THE GOVERNOR AND THE LEGISLATURE OF THE
STATE OF CALIFORNIA

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our 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 86 percent of the assets and deferred outflows, and 32 percent of the revenues of the business-type activities.

- The University of California and the California Housing Finance Agency that represent 93 percent of the assets and deferred outflows, and 92 percent of the 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.

- The Golden State Tobacco Securitization Corporation, the Public Employees' Retirement, the State Teachers' Retirement, the State Water Pollution Control, and the 1943 Veterans Farm and Home Building funds, that represent 85 percent of the assets and deferred outflows, and 51 percent of the additions, revenues and other financing sources of the aggregate remaining fund information.

- The discretely presented component units noted above.

555 Capitol Mall, Suite 300 Sacramento, CA 95814 916.445.0255 916.327.0019 fax www.auditor.ca.gov

The related 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. The financial statements of the Golden State Tobacco Securitization Corporation, the Public Building Construction, the Public Employees' Retirement, the State Lottery, the Water Resources and the 1943 Veterans Farm and Home Building funds were not audited in accordance with *Government Auditing Standards*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant estimates made by management, as well as evaluating the overall financial statement presentation of the financial statements.

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

<u>Opinions</u>

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, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

<u>Other Matters</u>

Required Supplementary Information

Accounting principles generally accepted in the United State of America require that the 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. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State's basic financial statements. The introductory section, combining financial statements, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining financial statements are the responsibility of management and were derived from, and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic 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 basic 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 above, 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.

Other Reporting Required by Government Auditing Standards

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* in considering the State's internal control over financial reporting and compliance.

CALIFORNIA STATE AUDITOR

John F. Collins II

JOHN F. COLLINS II, CPA
Deputy State Auditor

April 16, 2014

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, 2013. There were significant accounting changes and restatements in fiscal year 2012-13 which are described in Note 1L. All comparisons between fiscal year 2012 and 2013 are based on restated amounts for fiscal year 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 2012-13 fiscal year, California made solid economic progress and ended on more stable fiscal footing. The State's general revenues increased by $14.6 billion (13.9%) over the prior year. Expenses for the State's governmental activities also increased but were less than revenues received, resulting in a $8.5 billion decrease in governmental activities' net deficit position. Total revenues and transfers for the State's business-type activities surpassed expenses by $1.4 billion in fiscal year 2012-13. Revenues exceeded expenses resulting in a 70.9% decrease in the total net deficit position for governmental and business-type activities over the 2011-12 fiscal year.

Net Position – The primary government's net deficit position as of June 30, 2013, was $4.1 billion. After the total net deficit position is reduced by $86.6 billion for net investment in capital assets and by $29.5 billion for restricted net position, the resulting unrestricted net position totals a negative $120.2 billion. Restricted net position is dedicated for specified uses and is not available to fund current activities. Almost half of the negative $120.2 billion consists of $59.1 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 position; however, local governments, not the State, record the capital assets that would offset this reduction.

Fund Highlights

Governmental Funds – As of June 30, 2013, the primary government's governmental funds reported a combined ending fund balance of $12.2 billion, an increase of $8.0 billion from the prior fiscal year. The unrestricted fund balance, comprised of committed, assigned, and unassigned balances, was negative $12.2 billion. The nonspendable and restricted fund balances were $155 million and $24.3 billion, respectively.

Proprietary Funds – As of June 30, 2013, the primary government's proprietary funds reported combined ending net position of $4.3 billion, an increase of $1.0 billion from the prior fiscal year. After the total net position is reduced by $1.8 billion for net investment in capital assets, expendable restrictions of $5.2 billion, and nonexpendable restrictions of $21 million, the unrestricted net position totals a negative $2.7 billion.

Noncurrent Assets and Liabilities

As of June 30, 2013, the primary government's noncurrent assets totaled $145.1 billion, of which $118.6 billion is related to capital assets. State highway infrastructure assets of $64.6 billion represent the largest portion of the State's capital assets.

The primary government's noncurrent liabilities totaled $164.3 billion, which consists of $80.1 billion in general obligation bonds, $31.7 billion in revenue bonds, and $52.5 billion in all other noncurrent liabilities. During the 2012-13 fiscal year, the primary government's noncurrent liabilities increased by $626 million (0.4%) over the prior fiscal year. This increase was primarily the result of a $3.5 billion decrease in loans payable, an increase of $3.3 billion in net other postemployment benefits obligations, an increase of $563 million for revenue bonds payable and an increase of $502 million 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 Position and the Statement of Activities.

- The *Statement of Net Position* presents all of the State's assets and liabilities and reports the difference between the two as net position. Over time, increases or decreases in net position indicate whether the financial position of the State is improving or deteriorating.

- The *Statement of Activities* presents information showing how the State's net position changed during the most recent fiscal year. The State reports changes in net position 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 Position

The primary government's combined net deficit position (governmental and business-type activities) decreased by 70.9%, from $14.0 billion as restated at June 30, 2012, to $4.1 billion a year later.

The primary government's $86.6 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 position. 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 $29.5 billion of the primary government's net position 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 position. As of June 30, 2013, governmental activities reported an unrestricted net deficit of $117.4 billion and business type activities showed an unrestricted net deficit of $2.8 billion.

A large portion of the unrestricted net deficit of governmental activities consists of $59.1 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 position reported as "net investment in capital assets." Instead, the bonded debt is reported as a non-current liability that reduces the State's unrestricted net deficit. Readers can expect to see a continued deficit in the unrestricted section of net position 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 Position for the primary government.

Table 1

Net Position – Primary Government
June 30, 2012 and 2013
(amounts in millions)

	Governmental Activities		Business-type Activities		Total	
	2013	**2012**	**2013**	**2012**	**2013**	**2012**
ASSETS						
Current and other assets	$ 55,358	$ 52,262	$ 34,996	$ 35,025	$ 90,354	$ 87,287
Capital assets	108,668	104,757	9,959	8,871	118,627	113,628
Total assets	**164,026**	**157,019**	**44,955**	**43,896**	**208,981**	**200,915**
DEFERRED OUTFLOWS OF RESOURCES	**911**	**963**	**480**	**363**	**1,391**	**1,326**
Total assets and deferred outflows of resources	**$164,937**	**$157,982**	**$ 45,435**	**$44,259**	**$210,372**	**$202,241**
LIABILITIES						
Noncurrent liabilities	$ 128,052	$ 126,896	$ 36,282	$ 36,812	$ 164,334	$ 163,708
Other liabilities	44,863	47,587	4,616	4,763	49,479	52,350
Total liabilities	**172,915**	**174,483**	**40,898**	**41,575**	**213,813**	**216,058**
DEFERRED INFLOWS OF RESOURCES	**159**	**147**	**471**	**—**	**630**	**147**
Total liabilities and deferred inflows of resources	**173,074**	**174,630**	**41,369**	**41,575**	**214,443**	**216,205**
NET POSITION						
Net investment in capital assets	84,931	80,769	1,719	1,561	86,650	82,330
Restricted	24,316	24,872	5,172	4,593	29,488	29,465
Unrestricted	(117,384)	(122,289)	(2,825)	(3,470)	(120,209)	(125,759)
Total net position (deficit)	**(8,137)**	**(16,648)**	**4,066**	**2,684**	**(4,071)**	**(13,964)**
Total liabilities, deferred inflows of resources, and net position	**$ 164,937**	**$ 157,982**	**$ 45,435**	**$ 44,259**	**$ 210,372**	**$ 202,241**

Changes in Net Position

The expenses of the primary government totaled $224.9 billion for the year ended June 30, 2013. Of this amount, $115.5 billion (51.4%) was funded with program revenues (charges for services or program-specific grants and contributions), leaving $109.4 billion to be funded with general revenues (mainly taxes). The primary government's general revenues of $119.3 billion were more than the residual expenses. As a result, the total net deficit position decreased by $9.9 billion, or 70.9%.

Table 2 presents condensed financial information derived from the Statement of Activities for the primary government.

Table 2

Changes in Net Position – Primary Government

Years ended June 30, 2012 and 2013

(amounts in millions)

	Governmental Activities		Business-type Activities		Total	
	2013	**2012**	**2013**	**2012**	**2013**	**2012**
REVENUES						
Program Revenues:						
Charges for services	$ 23,102	$ 19,813	$ 28,379	$ 31,981	$ 51,481	$ 51,794
Operating grants and contributions	60,944	58,577	1,323	1,250	62,267	59,827
Capital grants and contributions	1,669	2,193	142	—	1,811	2,193
General Revenues:						
Taxes	118,645	104,256	—	—	118,645	104,256
Investment and interest	57	72	—	—	57	72
Miscellaneous	552	372	—	—	552	372
Total revenues	**204,969**	**185,283**	**29,844**	**33,231**	**234,813**	**218,514**
EXPENSES						
Program Expenses:						
General government	15,390	12,607	—	—	15,390	12,607
Education	50,586	51,288	—	—	50,586	51,288
Health and human services	94,070	89,940	—	—	94,070	89,940
Resources	5,671	5,951	—	—	5,671	5,951
State and consumer services	1,475	1,241	—	—	1,475	1,241
Business and transportation	12,836	13,720	—	—	12,836	13,720
Correctional programs	10,082	10,344	—	—	10,082	10,344
Interest on long-term debt	4,350	4,560	—	64	4,350	4,624
Electric Power	—	—	488	915	488	915
Water Resources	—	—	1,127	1,048	1,127	1,048
Public Buildings Construction	—	—	410	404	410	404
State Lottery	—	—	4,499	4,432	4,499	4,432
Unemployment Programs	—	—	17,599	21,112	17,599	21,112
California State University System	—	—	6,197	6,114	6,197	6,114
Nonmajor enterprise	—	—	140	184	140	184
Total expenses	**194,460**	**189,651**	**30,460**	**34,273**	**224,920**	**223,924**
Excess (deficiency) before transfers	**10,509**	**(4,368)**	**(616)**	**(1,042)**	**9,893**	**(5,410)**
Transfers	(1,998)	(2,031)	1,998	2,031	—	—
Change in net position	**8,511**	**(6,399)**	**1,382**	**989**	**9,893**	**(5,410)**
Net position, beginning (restated)	**(16,648)**	**(10,249)**	**2,684**	**1,695**	**(13,964)**	**(8,554)**
Net position (deficits), ending	**$ (8,137)**	**$ (16,648)**	**$ 4,066**	**$ 2,684**	**$ (4,071)**	**$ (13,964)**

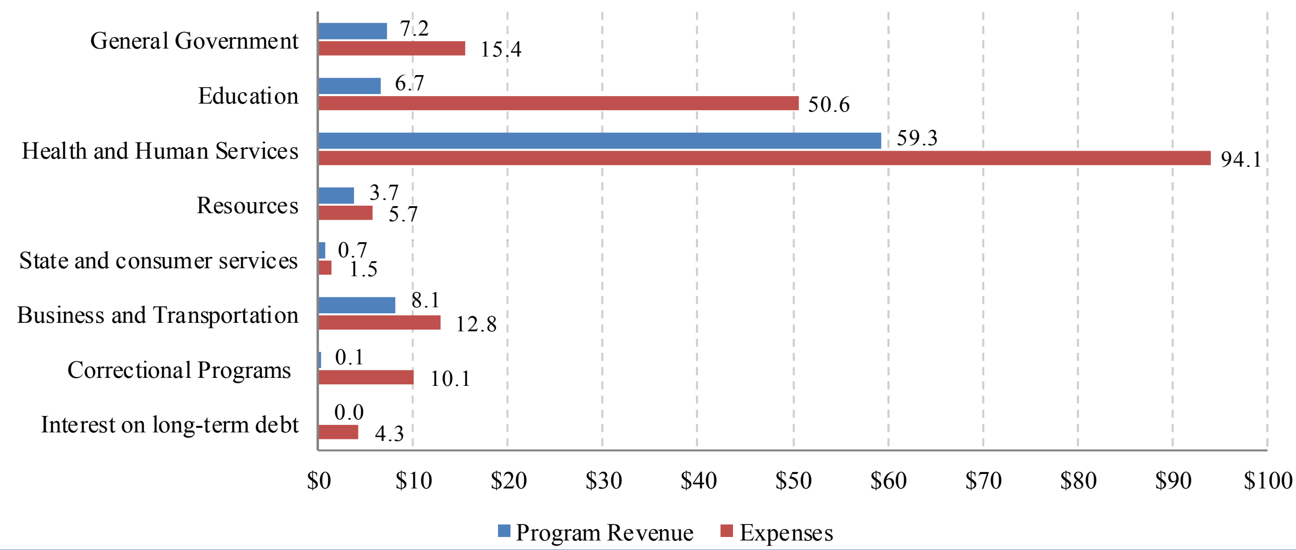
Governmental Activities

Governmental activities' expenses and transfers totaled $196.5 billion. Program revenues totaling $85.7 billion, including $62.6 billion received in federal grants, funded 43.6% of expenses and transfers, leaving $110.8 billion to be funded with general revenues (mainly taxes). General revenues for governmental activities totaled $119.3 billion and the governmental activities' total net deficit position decrease of $16.6 billion at the end of fiscal year 2011-12 to $8.1 billion for the year ended June 30, 2013, a decrease of $8.5 billion (51.1%).

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, 2013
(amounts in billions)



For the year ended June 30, 2013, total state tax revenues collected for governmental activities increased by $14.4 billion (14.6%) over the prior year. Personal income taxes increased by $13.1 billion (24.2%) as a result of improving California employment rates; the passage of Proposition 30, which increased personal income tax on earnings above $250,000 and increased capital gains taxes from a surging stock market; and increasing home prices. The state sales and use tax collection increased by $2.6 billion (8.4%) due to the 0.25% increase in the sales tax resulting from the passage of Proposition 30, increased consumer spending, increased consumer confidence in the improving economy, and a reduction in the unemployment rate which resulted in more disposable income for California households. However, corporate taxes decreased by $1.3 billion (15.5%).

Overall expenses for governmental activities increased by $4.8 billion (2.5%) from the prior year. The largest increase of expenditures, $4.1 billion (4.6%), was attributable to health and human services, the majority of which is attributable to the Department of Health Care Services, which includes Medi-Cal services. The 2012-13 fiscal year budget proposed an increase of $9.3 billion over the 2011-12 Budget for Medi-Cal services. The growth in spending for the Department of Health Care Services was due to an increased caseload, the increased utilization of services, and the rising costs of those services. General government expenditures increased by $2.8 billion (22.1%), the largest portion of which was attributable to Local Government financing.

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, 2013
(as a percent)

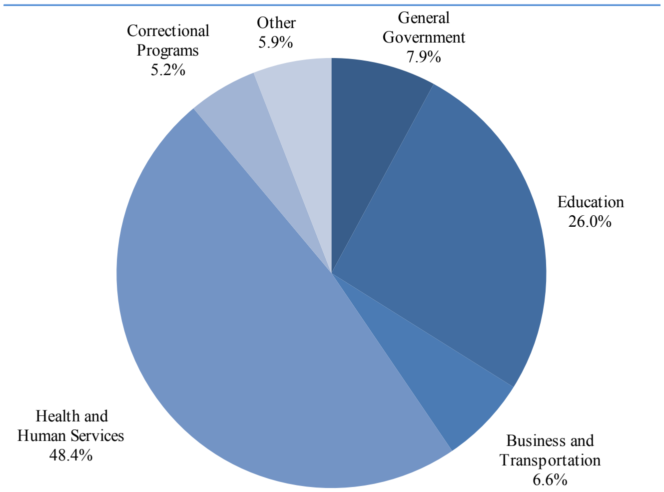
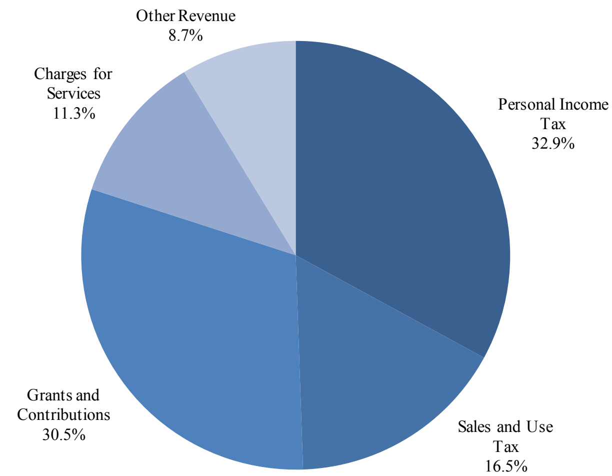


Chart 3

Revenues by Source
Year ended June 30, 2013
(as a percent)



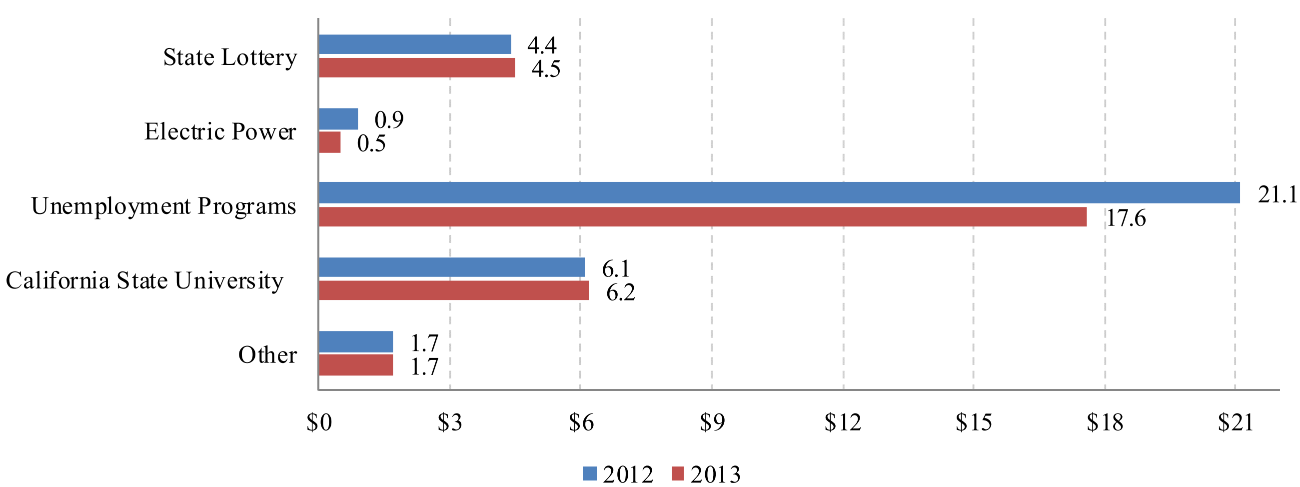
Business-type Activities

Business-type activities expenses totaled $30.5 billion. Program revenues of $29.9 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 position increased by $1.4 billion, or 51.5%, during the year ended June 30, 2013.

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
Years ended June 30, 2012 and 2013
(amounts in billions)



Fund Financial Analysis

The State's governmental funds had an $8.0 billion increase in fund balance over the prior year's restated ending fund balance. Some proprietary funds' net position increased, as their revenues exceeded expenses for the fiscal year 2012-13. The Unemployment Programs Fund incurred the largest decrease in net deficit position of $999 million.

Governmental Funds

The governmental funds' Balance Sheet reported $64.2 billion in assets, $51.9 billion in liabilities and deferred inflows of resources, and $12.2 billion in fund balance as of June 30, 2013. Total assets of governmental funds decreased by 1.7%, while total liabilities decreased by 18.6%, primarily resulting in a total fund balance increase of 8.0 billion (190.4%) over the prior fiscal year. This is the result of decrease in liabilities of governmental fund by $11.4 billion. In prior years, 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, 2013, long-term borrowing had decreased by $4.1 billion to $6.5 billion.

Within the governmental funds' total fund balance, $155 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, $24.3 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, of the total fund balance, $2.3 billion is classified as committed for specific purposes and $209 million is classified as assigned for specific purposes. The unassigned balance of the governmental funds is a negative $14.8 billion.

The Statement of Revenues, Expenditures, and Changes in Fund Balances of the governmental funds reports $204.9 billion in revenues, $202.1 billion in expenditures, and a net $5.2 billion in receipts from other financing sources. The ending fund balance of the governmental funds for the year ended June 30, 2013, was $12.2 billion, a $8.0 billion increase over the prior year's restated ending fund balance of $4.2 billion. The reason for the change in the fund balance was a net decrease in liabilities from the prior year.

Personal income taxes, which account for 56.9% of tax revenues and 32.9% of total governmental fund revenues, increased by $13.0 billion from the prior fiscal year. Sales and use taxes, which account for 28.6% of tax revenues and 16.5% of total governmental fund revenues, increased by $2.7 billion over the prior fiscal year. Corporation taxes, which account for 6.1% of tax revenues and 3.5% of total governmental fund revenues, decreased by $1.3 billion from the prior fiscal year. Governmental fund expenditures increased by $6.5 billion over the prior fiscal year. General obligation bonds and commercial paper of $4.0 billion were issued during the 2012-13 fiscal year; however, this was $127 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 $14.3 billion. The Federal Fund, the Transportation Fund, and the Environmental and Natural Resources Fund ended the fiscal year with fund balances of $198 million, $7.2 billion, and $7.8 billion, respectively. The nonmajor governmental funds ended the year with a total fund balance of $11.3 billion.

General Fund: As shown on the Balance Sheet, the General Fund (the State's main operating fund) ended the fiscal year with assets and deferred outflows of resources of $15.6 billion; liabilities and deferred inflows of resources of $29.9 billion; and nonspendable, restricted, and committed fund balances of $140 million, $179 million, and $23 million, respectively, leaving the General Fund with a negative unassigned fund balance of $14.6 billion. Total assets and deferred outflows of resources of the General Fund increased by $1.3 billion (8.9%) over the prior fiscal year while the total liabilities and deferred inflows of resources of the General Fund decreased by $7.4 billion (19.9%). Total fund deficit decreased by $8.7 billion (37.9%).

As shown on the Statement of Revenues, Expenditures, and Changes in Fund Balances of the governmental funds, the General Fund had an excess of revenues over expenditures of $9.3 billion ($99.4 billion in revenues and $90.1 billion in expenditures). Approximately 94.5% of General Fund revenue ($93.9 billion) is derived from the State's largest three taxes – personal income taxes ($66.2 billion), sales and use taxes ($20.4 billion), and corporation taxes ($7.3 billion). A total of $175 million in revenue is included in the General Fund in compliance with GASB, Statement 54. These revenues are not considered General Fund revenues for any budgetary purposes or for the Budgetary/Legal Basis Annual Report. Most of these revenues ($170 million) are from unemployment programs.

During the 2012-13 fiscal year, total General Fund revenue increased by $12.8 billion (14.8%). This is primarily a result of the net increase in personal income taxes of $12.6 billion (23.6%). Revenue from sales and use taxes also increased by $1.8 billion (9.7%) However, corporation taxes decreased by $1.3 billion (15.7%).

General Fund expenditures increased by $1.8 billion (2.1%). The largest increase was in general government program expenditures which were up $1.6 billion over the prior year. The General Fund's ending fund balance for the year ended June 30, 2013 was a negative $14.3 billion, a decrease of $8.4 billion from the prior year's restated ending fund deficit of $22.7 billion.

Federal Fund: This fund reports federal grant revenues and related expenditures to support the grant programs. The largest of these programs is health and human services, which accounted for $49.7 billion (80.4%) of the total $61.8 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 Federal Fund expenditures amounting to $6.6 billion (10.7%). The Federal Fund's revenues increased by $1.8 billion, which was approximately the same amount of increase in combined expenditures and transfers, resulting in a $37 million fund balance increase from the prior year's ending fund balance of $161 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 0.6% and expenditures increased by 3.2%. Other financing sources provided net receipts of $2.0 billion. The Transportation Fund ended the fiscal year with a $7.2 billion fund balance, an increase of $504 million 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 $440 million. The Environmental and Natural Resources Fund ended the fiscal year with a $7.8 billion fund balance, a decrease of $148 million (1.9%) from the prior year.

Proprietary Funds

Enterprise Funds: The total net position of the enterprise funds at June 30, 2013, was $4.1 billion—$1.4 billion greater than the prior year's restated ending net position of $2.7 billion. Some enterprise funds recorded an increase in net position during the 2012 13 fiscal year. The Unemployment Programs Fund had a decrease in its net deficit position of $999 million. The net position increased in Nonmajor Enterprise Funds ($203 million) and the Public Buildings Construction Fund ($198 million).

As shown on the Statement of Net Position of the proprietary funds, the total assets and deferred outflows of resources of the enterprise funds were $45.9 billion as of June 30, 2013. Of this amount, current assets totaled $14.1 billion, noncurrent assets totaled $31.3 billion and deferred outflows of resources totaled $480 million. The largest changes in asset account balances were a $1.6 billion increase in cash and pooled investments and a $834 million decrease in interfund receivables. The total liabilities and deferred inflows of resources of the enterprise funds were $41.9 billion. The largest liabilities of the enterprise funds are $24.1 billion of revenue bonds payable and $8.6 billion of noncurrent loans payable. During the 2012-13 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, 2013, was $8.6 billion.

Total net position consisted of four segments: a nonexpendable restricted net position of $21 million, a restricted expendable net position of $5.2 billion, net investment in capital assets of $1.7 billion, and an unrestricted net deficit of $2.8 billion.

As shown on the Statement of Revenues, Expenses, and Changes in Fund Net Position of the proprietary funds, the enterprise funds ended the year with operating revenues of $27.4 billion, operating expenses of $27.8 billion, and net expenses from other transactions of $311 million. The largest sources of operating revenue were unemployment and disability insurance receipts of $18.6 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 $3.4 billion from $21.9 billion in fiscal year 2011-12. 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 $17.3 billion by the Unemployment Programs Fund and personal services of $3.8 billion by the California State University Fund.

Internal Service Funds: The total net position of the internal service funds was $252 million as of June 30, 2013. The net position consists of two segments: net investment in capital assets of $127 million and unrestricted net position of $125 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 position of $5.2 billion. The pension and other employee benefit trust funds ended the fiscal year with net position of $443.2 billion. The State's only investment trust fund, the Local Agency Investment Fund, ended the fiscal year with net position of $21.2 billion. Agency funds act as clearing accounts and thus do not have a net position.

For the year ended June 30, 2013, the fiduciary funds' combined net position was $469.5 billion, a $41.7 billion increase from the prior-year net position. The net position increased primarily because contributions received and investment income in pension and other employee benefit trust funds exceeded payments made to participants.

The Economy for the Year Ending June 30, 2013

The U.S. economy completed its fourth year of recovery as California ended its fiscal year on June 30, 2013. National growth was slow, with real gross domestic product (GDP) up a modest 1.6%. Despite limited support from the rest of the country, a rebound in California's housing market, tourism, and other key sectors allowed the State to post a solid gain for the year.

California's total personal income reached $1.79 trillion in fiscal year 2012-13, accounting for more than one out of every eight dollars earned nationally. The state registered a 4.5% income rise during the year, beating the 3.5% rise in the nation as a whole.

Housing staged a sharp recovery, with a 33.5% surge in the median price of a single-family existing home over the 12 months ended June 2013. For the 2012-13 fiscal year, housing permits totaled 69,401 units, a 41.5% increase over the 49,041 permits issued in the prior year. Pent-up demand was evident in other areas as well. Auto sales, for example, increased sharply with registrations climbing 12.5% to 850,712 for the year in total.

California's job market improved significantly, with nonfarm employment in June 2013 220,000, or 1.5%, above the level of the prior year. Job gains were widespread, with particularly large numerical and percentage increases in construction, leisure and hospitality, business and professional services, education, and health care and social assistance. The public sector and manufacturing were the primary areas showing job losses. The general improvement in the labor market was strong enough to push the unemployment rate down more than two full percentage points, from 10.6% in June 2012 to 8.5% as of June 2013.

California ended its fiscal year on June 30, 2013, with solid economic progress. While more growth is needed to drive the jobless rate lower and improve incomes for all, substantial gains are being achieved.

General Fund Budget Highlights

The original General Fund budget of $97.6 billion was reduced by $720 million. This decrease is mainly the result of reductions in funding to education programs per Section 12.42 of the 2012 Budget Act, as well as other reductions in education and State and consumer services, and the increases in health and human services and other general government expenditures. The Judicial Branch absorbed $344 million of the increase in other general government expenditures. During the 2012-13 fiscal year, General Fund actual budgetary basis expenditures were $95.9 billion, $1.0 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, 2013
(amounts in millions)

	Original	Final	Increase/ (Decrease)
Budgeted amounts			
State and consumer services	$ 1,335	$ 682	$ (653)
Business and transportation	90	90	—
Resources	941	1,177	236
Health and human services	26,658	27,395	737
Correctional programs	8,821	8,700	(121)
Education	50,128	48,788	(1,340)
General government:			—
Tax relief	439	439	—
Debt service	4,436	4,439	3
Other general government	4,786	5,204	418
Total	**$ 97,634**	**$ 96,914**	**$ (720)**

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, 2013, amounted to $118.6 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, 2013
(amounts in millions)

	Governmental Activities	Business-type Activities	Total
Land	$ 17,602	$ 217	$ 17,819
State highway infrastructure	64,620	—	64,620
Collections – nondepreciable	23	6	29
Buildings and other depreciable property	25,614	11,264	36,878
Intangible assets – amortizable	986	174	1,160
Less: accumulated depreciation/amortization	(11,166)	(4,693)	(15,859)
Construction in progress	9,905	2,587	12,492
Intangible assets – nonamortizable	1,084	404	1,488
Total	**$ 108,668**	**$ 9,959**	**$ 118,627**

As of June 30, 2013, the State had $118.6 billion in net capital assets, of which $64.6 billion was state highway infrastructure. This total represents an increase of $2.1 billion in infrastructure capital assets from fiscal year 2011-12.

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 2012-13 fiscal year, the actual amount spent on preservation was 23.5% 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 49,718 lane miles and 13,071 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, 2013, the primary government had total bonded debt outstanding of $116.5 billion. Of this amount, $83.2 billion (71.4%) represents general obligation bonds, which are backed by the full faith and credit of the State. Included in the $83.2 billion of general obligation bonds is $5.2 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 $3.1 billion and the long-term portion is $80.1 billion. The remaining $33.3 billion (28.6%) of bonded debt outstanding represents revenue bonds, which are secured solely by specified revenue sources. The current portion of revenue bonds outstanding is $1.6 billion and the long-term portion is $31.7 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, 2013
(amounts in millions)

	Governmental Activities	Business-type Activities	Total
Government-wide noncurrent liabilities			
General obligation bonds	$ 79,306	$ 826	$ 80,132
Revenue bonds	7,581	24,079	31,660
Certificates of participation and commercial paper	530	77	607
Capital lease obligations	4,920	847	5,767
Net other postemployment benefits obligation	15,559	510	16,069
Proposition 98 funding guarantee	1,914	—	1,914
Mandated costs	6,697	—	6,697
Loans payable	—	8,585	8,585
Other noncurrent liabilities	11,545	1,358	12,903
Total noncurrent liabilities	128,052	36,282	164,334
Current portion of long-term obligations	4,182	2,244	6,426
Total long-term obligations	**$ 132,234**	**$ 38,526**	**$ 170,760**

During the year ended June 30, 2013, the primary government's total long-term obligations increased by $1.8 billion over the prior year's restated balance. Governmental activities net other postemployment benefits obligation had the largest increase ($3.1 billion), but other notable increases occurred in general obligation bonds payable, commercial paper payable, mandated costs, and capital lease obligations. The largest decrease was in loans payable ($3.5 billion). During the fiscal year, the State issued $3.3 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.

In January 2013, Standard and Poor's raised its rating on the State's general obligation bond 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 the next several years. During the fiscal year 2012-13, the ratings from the other two credit rating agencies remained unchanged as follows: Moody's Investors Service – "A1" and Fitch – "A-".

Recent Economic Condition and Future Budgets

Recent Economic Condition

California's economy continued to grow during the first six months of fiscal year 2013-14, which began on July 1, 2013. Employment expanded, the jobless rate fell, incomes grew, and the housing market strengthened. An improving economy also bolstered the State's financial position, with strong gains in the State's principal revenue sources.

During the first six months of fiscal year 2013-14, California added 153,000 to nonfarm payrolls. Compared with the prior year, nonfarm employment as of December 2013 was up by 236,000 jobs. The year-over-year 1.6% increase matched the gain recorded nationally.

California's jobless rate fell to a seasonally adjusted 8.3% in December 2013. This represented a 1.5 percentage point drop from the 9.8% recorded at the end of the prior year.

All major industry groups in the private sector added jobs in 2013. Construction hiring produced 29,000 new jobs in 2013, representing a gain of 4.8%. In contrast to the job gains in the private sector over the year, government payrolls contracted by 18,000, or 0.8%. Job losses occurred at the federal, state, and local level.

Total personal income in the State reached an annualized rate of $1.82 trillion in the third quarter of calendar year 2013, representing a gain of 3.4% over the prior year. Total wages and salaries advanced by 3.8%, while nonfarm proprietors' incomes jumped by 6.9%.

The housing market continued to strengthen in the July through December period of 2013. The supply of foreclosures and "short" sales (sales of homes at prices below the value of the mortgage) was at the lowest level since before the financial crisis of 2008. The median price of an existing single-family home reached $438,000 in California at the end of 2013, a gain of nearly 20% over the prior year's levels.

California's state coffers benefited from the economic gains as well as tax increases approved by voters in November 2012. Total General Fund revenues reached $42 billion in the first six months of fiscal year 2013-14. This represented a gain of $3.9 billion, or 10% over the first six months of the prior fiscal year. Personal income, sales taxes, and corporate revenues all contributed to the gain.

Risks, including higher interest rates, swings in stock prices, international instability, and the implications of California's drought persist; however, advances in technology, foreign trade, construction activity, and tourism bode well for the state's continued economic expansion.

California's 2013-14 Budget

California's 2013-14 Budget Act was enacted on June 27, 2013. The Budget Act appropriated $145.3 billion: $96.3 billion from the General Fund, $42.0 billion from special funds, and $7.0 billion from bond funds. The General Funds' budgeted expenditures increased $620 million (0.6%) over last year's General Fund budget. The General Fund's available resources were projected to be $97.1 billion, resulting in a projected reserve for economic uncertainties of $1.1 billion. General Fund revenues come predominantly from taxes, with personal income taxes expected to provide 62.6% of total revenue. California's major taxes (personal income, sales and use, and corporation taxes) are projected to supply approximately 95.1% of the General Fund's resources in the 2013-14 fiscal year.

Two years of significant reductions in state spending, combined with the first year of a temporary seven-year income tax increase and four-year sales tax increase, resulted in the State's most fiscally sound financial condition in over a decade. For the first time since fiscal year 2007-08, the State ended the prior fiscal year with a positive General Fund reserve balance, approximately $254 million, and is projected to end the 2013-14 fiscal year with a reserve balance of $1.1 billion. Two significant aspects of the 2013-14 fiscal year budget are the substantial allocation of General Fund money to education, $50.6 billion (52.5%), and Health and Human Services, $28.1 billion (29.2%).

The Budget increased K-12 funding levels, boosting spending per student by $1,045 in 2013-14 and by $2,835 through 2016-17. Also included was a one-time allocation of $1.25 billion for implementation of the Common Core State Standards in K-12 schools. The 2013 Budget addressed previous cuts to higher education by increasing funding between $1,649 and $2,491 per student through 2016-17.

The spending plan for fiscal year 2013-14 includes $20.7 billion of General Fund money for health programs. This $1.2 billion increase over 2012-13 primarily addresses implementation of the Patient Protection and Affordable Care Act (ACA), as well as increases in caseload and the need for health services. The State of California elected to expand Medi-Cal eligibility to include over one million adults with incomes up to 133% of the federal poverty level. Federal funds totaling $1.7 billion will also be directed to providing health coverage to the expanded Medi-Cal population.

Another significant area of General Fund expenditures is the State's Judiciary and Criminal Justice programs. The General Fund provided $9.2 billion for Corrections and Rehabilitation and $1.2 billion for the Judicial Branch. The Budget also reflects increased employee compensation costs. An increase of $600 million from prior year mirrors increased costs associated with the end of state employee furloughs in June 2013. New bargaining agreements reached in fiscal year 2013-14 resulted in salary increases for much of the State's workforce, and rising health care costs have necessitated the need for the State to pay increased premiums for 14 of the state's 21 bargaining units, as well as the State's managerial and supervisorial employees.

The fiscal year 2013-14 Budget is part of a multiyear plan that is balanced and maintains a reserve. Since the passage of this Budget Act, state revenues have exceeded estimates used in preparing the Budget. As of December 1, 2013, revenues were $270 million more than projected. At the same time, disbursements were $126 million below forecast. The State's budget picture, in terms of the difference between receipts and disbursements, was at least $396 million better than expected.

California's 2014-15 Budget

The Governor released his proposed 2014-15 Budget on January 10, 2014. The proposed budget continues Governor Brown's multi-year financial plan for the State of California that is balanced, maintains a $1.0 million reserve, contributes to the Budget Stabilization Account, and pays down budgetary debt from past years. For the second consecutive year, the General Fund will begin the fiscal year with a surplus rather than a deficit. The General Fund began with a surplus balance of $2.5 billion at the beginning of fiscal year 2013-14; it is projected to begin fiscal year 2014-15 with a surplus of approximately $4.2 billion. The 2014-15 Budget directs $1.6 billion to the Budget Stabilization Account, to prepare for the State's next budget shortfall, as mandated by Proposition 58, the California Balanced Budget Act, which was approved by voters in 2004. The 2014-15 Budget also honors the California Balanced Budget Act by directing $1.6 billion to retire the remaining Economic Recovery Bonds that were approved by voters in 2004 and removing that debt obligation. The improving economy will allow California to adhere to the mandates of Proposition 58 and still provide a surplus for the State's General Fund going into the 2015-16 fiscal year.

The 2014-15 Governor's Budget projects that General Fund revenues and transfers will be $104.5 billion and expenditures will be approximately $106.8 billion, with an estimated $1.9 billion year-end balance. Proposed 2014-15 General Fund revenues and transfers are 4.4% more than the revised 2013-14 estimate of $100.1 billion, while the 2014-15 expenditures are 8.5% greater than the revised 2013-14 estimate of $98.5 billion.

Personal Income Tax, which is projected to increase by $5.5 billion (8.5%) compared to the prior year, represents the major component of the $5.9 billion General Fund revenue increase. Projected increases in Sales and Use Tax of $1.2 billion (5.0%) and Corporation Tax of $0.7 billion (8.9%) also contribute to the 5.9% increase in General Fund Revenue projections. Reflecting the Governor's intent to reinvest in education, the fiscal year 2014-15 budget expenditures of $106.8 billion include $45.2 billion (42.4%) for K-12 funding and $12.4 billion (11.6%) for higher education programs. The increased funding of education is attributable to the passage, in November 2012, of the Governor's initiative, Proposition 30, Temporary Taxes to Fund Education. The funding level for K-12 students is estimated to increase by more than $2,188 per student in 2014-15 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. Medi-Cal, the budget's second largest program, is projected to increase spending 4.1% from $16.2 billion in 2013-14 to $16.9 billion in 2014-15. Growth in Medi-Cal General Fund expenditures has been reduced through the use of other funding sources, including the Gross Premiums Tax (authorized from 2009-10 to 2012-13), the Managed Care Organization Tax (authorized in 2013-14), the Hospital Quality Assurance Fee (first authorized in 2011-12), and Medicaid waivers that allow claiming of federal funds for state-only health care costs. In addition, the Medi-Cal program was expanded in two ways. The mandatory expansion simplified eligibility, enrollment, and retention rules, making it easier to get on and stay on the program. The optional expansion extended eligibility to adults without children and parent and caretaker relatives with incomes up to 138% of the federal poverty level.

According to the Legislative Analyst's Office (LAO), California's nonpartisan fiscal and policy advisor, the State's budgetary condition is currently stronger than at any point in the past decade. The State's structural deficit has been corrected, with projected revenues greater than current spending commitments. Economic growth in future years is forecasted to continue. However, the LAO has stated that although the Governor's fiscal year 2014-15 budget projects a large surplus, the State's continued fiscal recovery is dependent on a number of assumptions, leaving open the possibility of an economic downturn and a return to operating deficits.

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.

This page intentionally left blank.

This page intentionally left blank.

Basic Financial Statements

This page intentionally left blank.

Government-wide Financial Statements

Statement of Net Position

June 30, 2013

(amounts in thousands)

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
ASSETS				
Current assets:				
Cash and pooled investments	$ 20,761,086	$ 5,368,975	$ 26,130,061	$ 2,068,054
Amount on deposit with U.S. Treasury	—	39,963	39,963	—
Investments	645,053	2,235,832	2,880,885	5,821,945
Restricted assets:				
Cash and pooled investments	—	3,199,349	3,199,349	90,659
Investments	—	—	—	11,636
Due from other governments	—	20,448	20,448	—
Net investment in direct financing leases	—	474,005	474,005	—
Receivables (net)	14,660,902	1,938,215	16,599,117	3,943,566
Internal balances	(486,406)	486,406	—	—
Due from primary government	—	—	—	209,125
Due from other governments	13,562,020	362,014	13,924,034	438,815
Prepaid items	109,692	50,937	160,629	1,168
Inventories	84,910	17,975	102,885	185,991
Recoverable power costs (net)	—	111,000	111,000	—
Other current assets	201,636	14,000	215,636	279,558
Total current assets	49,538,893	14,319,119	63,858,012	13,050,517
Noncurrent assets:				
Restricted assets:				
Cash and pooled investments	—	1,041,986	1,041,986	34,218
Investments	—	406,401	406,401	14,498
Loans receivable	—	325,930	325,930	—
Investments	—	1,268,777	1,268,777	24,510,217
Net investment in direct financing leases	—	7,519,404	7,519,404	—
Receivables (net)	1,971,742	303,120	2,274,862	1,424,281
Loans receivable	3,832,981	3,765,274	7,598,255	4,936,915
Recoverable power costs (net)	—	5,083,000	5,083,000	—
Long-term prepaid charges	14,264	930,066	944,330	17,728
Capital assets:				
Land	17,602,055	216,888	17,818,943	970,706
State highway infrastructure	64,619,437	—	64,619,437	—
Collections – nondepreciable	22,645	6,051	28,696	362,373
Buildings and other depreciable property	25,613,649	11,264,411	36,878,060	41,343,421
Intangible assets – amortizable	986,184	174,045	1,160,229	674,542
Less: accumulated depreciation/amortization	(11,165,562)	(4,693,059)	(15,858,621)	(18,892,317)
Construction in progress	9,905,330	2,587,131	12,492,461	2,917,542
Intangible assets – nonamortizable	1,084,328	403,979	1,488,307	5,131
Other noncurrent assets	—	32,830	32,830	333,470
Total noncurrent assets	114,487,053	30,636,234	145,123,287	58,652,725
Total assets	**164,025,946**	**44,955,353**	**208,981,299**	**71,703,242**
DEFERRED OUTFLOWS OF RESOURCES	**911,178**	**480,308**	**1,391,486**	**177,546**
Total assets and deferred outflows of resources	**$ 164,937,124**	**$ 45,435,661**	**$ 210,372,785**	**$ 71,880,788**

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	$ 23,635,118	$ 557,290	$ 24,192,408	$ 2,442,417
Due to component units	209,125	—	209,125	—
Due to other governments	6,667,161	160,908	6,828,069	595
Revenues received in advance	1,417,508	292,745	1,710,253	1,057,211
Tax overpayments	5,780,193	—	5,780,193	—
Deposits	382,376	—	382,376	754,640
Contracts and notes payable	22	—	22	10,382
Unclaimed property liability	853,438	—	853,438	—
Interest payable	1,167,137	200,767	1,367,904	72,671
Securities lending obligations	—	—	—	1,468,772
Benefits payable	—	763,914	763,914	—
Current portion of long-term obligations	4,182,125	2,244,037	6,426,162	2,289,737
Other current liabilities	568,810	396,303	965,113	2,872,686
Total current liabilities	44,863,013	4,615,964	49,478,977	10,969,111
Noncurrent liabilities:				
Benefits payable	—	—	—	—
Loans payable	—	8,585,318	8,585,318	—
Lottery prizes and annuities	—	707,781	707,781	—
Compensated absences payable	4,115,601	189,208	4,304,809	249,007
Certificates of participation, commercial paper and other borrowings	530,499	77,220	607,719	63,170
Capital lease obligations	4,919,996	847,352	5,767,348	2,743,813
General obligation bonds payable	79,305,707	825,868	80,131,575	—
Revenue bonds payable	7,580,922	24,079,026	31,659,948	17,249,244
Net other postemployment benefits obligation	15,559,232	510,229	16,069,461	7,719,066
Pollution remediation obligation	973,957	15,107	989,064	66,523
Revenues received in advance	—	11,439	11,439	—
Other noncurrent liabilities	15,066,215	433,261	15,499,476	5,493,392
Total noncurrent liabilities	128,052,129	36,281,809	164,333,938	33,584,215
Total liabilities	**172,915,142**	**40,897,773**	**213,812,915**	**44,553,326**
DEFERRED INFLOWS OF RESOURCES	**158,942**	**471,436**	**630,378**	**34,056**
Total liabilities and deferred inflows of resources	**$ 173,074,084**	**$ 41,369,209**	**$ 214,443,293**	**$ 44,587,382**

(continued)

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

Statement of Net Position (continued)

June 30, 2013

(amounts in thousands)

	Primary Government			
	Governmental Activities	**Business-type Activities**	**Total**	**Component Units**
NET POSITION				
Net investment in capital assets	$ 84,931,030	$ 1,718,648	$ 86,649,678	$ 12,477,905
Restricted:				
Nonexpendable – endowments	—	20,627	20,627	4,784,010
Expendable:				
Endowments and gifts	—	—	—	8,156,534
Business and transportation	10,085,253	6,663	10,091,916	—
Resources	5,737,364	788,558	6,525,922	—
Health and human services	2,850,447	150,776	3,001,223	—
Education	917,534	68,520	986,054	1,723,537
General government	3,913,748	658,461	4,572,209	—
Unemployment programs	—	3,433,770	3,433,770	—
State and consumer services	808,465	31,011	839,476	—
Correctional programs	3,102	14,156	17,258	—
Indenture	—	—	—	347,318
Statute	—	—	—	1,348,884
Other purposes	—	—	—	21,814
Total expendable	24,315,913	5,151,915	29,467,828	11,598,087
Unrestricted	(117,383,903)	(2,824,738)	(120,208,641)	(1,566,596)
Total net position (deficit)	**(8,136,960)**	**4,066,452**	**(4,070,508)**	**27,293,406**
Total liabilities, deferred inflows of resources, and net position	**$ 164,937,124**	**$ 45,435,661**	**$ 210,372,785**	**$ 71,880,788**

(concluded)

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

This page intentionally left blank.

Statement of Activities

Year Ended June 30, 2013

(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	$ 15,390,100	$ 6,196,586	$ 1,026,673	$ —
Education	50,586,387	64,480	6,587,898	—
Health and human services	94,069,749	8,761,781	50,490,448	—
Resources	5,670,922	3,269,315	387,861	—
State and consumer services	1,475,486	682,503	35,515	—
Business and transportation	12,836,192	4,082,616	2,331,983	1,669,021
Correctional programs	10,081,736	45,153	83,158	—
Interest on long-term debt	4,349,632	—	—	—
Total governmental activities	194,460,204	23,102,434	60,943,536	1,669,021
Business-type activities:				
Electric Power	488,000	488,000	—	—
Water Resources	1,127,195	1,127,195	—	—
Public Buildings Construction	410,404	616,041	—	—
State Lottery	4,499,451	4,445,921	—	—
Unemployment Programs	17,599,219	18,597,962	—	—
California State University	6,196,541	2,891,432	1,323,345	481
High Technology Education	6,568	5,585	—	—
State Water Pollution Control Revolving	3,698	60,173	—	141,823
Housing Loan	70,356	66,050	—	—
Other enterprise programs	58,578	80,540	—	—
Total business-type activities	30,460,010	28,378,899	1,323,345	142,304
Total primary government	**$ 224,920,214**	**$ 51,481,333**	**$ 62,266,881**	**$ 1,811,325**
Component Units				
University of California	$ 27,630,059	$ 15,325,540	$ 7,655,258	$ 256,670
California Housing Finance Agency	432,710	39,976	38,624	—
Nonmajor component units	1,938,919	1,022,680	546,344	17,350
Total component units	**$ 30,001,688**	**$ 16,388,196**	**$ 8,240,226**	**$ 274,020**

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 position

Net position – beginning

Net position (deficit) – ending

* Restated

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

Net (Expenses) Revenues and Changes in Net Position			
Primary Government			
Governmental Activities	Business-type Activities	Total	Component Units
$ (8,166,841)		$ (8,166,841)	
(43,934,009)		(43,934,009)	
(34,817,520)		(34,817,520)	
(2,013,746)		(2,013,746)	
(757,468)		(757,468)	
(4,752,572)		(4,752,572)	
(9,953,425)		(9,953,425)	
(4,349,632)		(4,349,632)	
(108,745,213)		(108,745,213)	
	$ —	—	
	—	—	
	205,637	205,637	
	(53,530)	(53,530)	
	998,743	998,743	
	(1,981,283)	(1,981,283)	
	(983)	(983)	
	198,298	198,298	
	(4,306)	(4,306)	
	21,962	21,962	
	(615,462)	(615,462)	
(108,745,213)	**(615,462)**	**(109,360,675)**	
			$ (4,392,591)
			(354,110)
			(352,545)
			(5,099,246)
67,502,738	—	67,502,738	—
33,839,065	—	33,839,065	—
7,289,910	—	7,289,910	—
5,219,605	—	5,219,605	—
2,295,579	—	2,295,579	—
2,498,248	—	2,498,248	—
57,285	—	57,285	2,115,480
551,580	—	551,580	—
—	—	—	2,806,319
(1,997,759)	1,997,759	—	—
117,256,251	**1,997,759**	**119,254,010**	**4,921,799**
8,511,038	1,382,297	9,893,335	(177,447)
(16,647,998) *	2,684,155 *	**(13,963,843)** *	**27,470,853** *
$ (8,136,960)	**$ 4,066,452**	**$ (4,070,508)**	**$ 27,293,406**

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

This page intentionally left blank.

Fund Financial Statements

Balance Sheet

Governmental Funds

June 30, 2013
(amounts in thousands)

	General	Federal
ASSETS		
Cash and pooled investments	$ 847,892	$ 273,649
Investments	—	—
Receivables (net)	12,650,495	950
Due from other funds	764,705	—
Due from other governments	1,151,555	11,805,801
Interfund receivables	53,767	—
Loans receivable	165,643	186,236
Other assets	11,538	96,907
Total assets	**15,645,595**	**12,363,543**
DEFERRED OUTFLOWS OF RESOURCES	—	—
Total assets and deferred outflows of resources	**$ 15,645,595**	**$ 12,363,543**
LIABILITIES		
Accounts payable	$ 1,657,644	$ 1,229,107
Due to other funds	11,661,164	8,338,802
Due to component units	169,215	—
Due to other governments	703,684	2,498,737
Interfund payables	6,435,046	—
Revenues received in advance	717,370	76,533
Tax overpayments	5,780,193	—
Deposits	2,194	—
Interest payable	—	4,123
Unclaimed property liability	853,438	—
General obligation bonds payable	—	—
Other liabilities	550,494	18,288
Total liabilities	**28,530,442**	**12,165,590**
DEFERRED INFLOWS OF RESOURCES	**1,369,609**	—
Total liabilities and deferred inflows of resources	**29,900,051**	**12,165,590**
FUND BALANCES		
Nonspendable	140,107	—
Restricted	178,643	197,953
Committed	22,879	—
Assigned	—	—
Unassigned	(14,596,085)	—
Total fund balances (deficit)	**(14,254,456)**	**197,953**
Total liabilities, deferred inflows of resources, and fund balances	**$ 15,645,595**	**$ 12,363,543**

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

Transportation	Environmental and Natural Resources	Nonmajor Governmental	Total
$ 2,874,361	$ 5,795,662	$ 10,028,511	$ 19,820,075
—	—	645,053	645,053
1,060,292	505,457	2,296,978	16,514,172
1,165,809	437,182	1,385,006	3,752,702
78,522	56,924	461,258	13,554,060
3,610,076	535,477	1,668,970	5,868,290
—	1,023,710	2,457,392	3,832,981
86,567	—	6,624	201,636
8,875,627	**8,354,412**	**18,949,792**	**64,188,969**
—	—	—	—
$ 8,875,627	**$ 8,354,412**	**$ 18,949,792**	**$ 64,188,969**
$ 416,912	$ 328,034	$ 985,702	$ 4,617,399
167,876	16,766	2,103,637	22,288,245
909	2,011	36,988	209,123
450,840	26,668	3,040,211	6,720,140
2,648	10,979	6,117	6,454,790
60,155	143,835	89,586	1,087,479
—	—	—	5,780,193
4,518	325	374,578	381,615
—	—	126,633	130,756
—	—	—	853,438
—	—	500,470	500,470
284,387	7,918	156,323	1,017,410
1,388,245	**536,536**	**7,420,245**	**50,041,058**
256,685	**—**	**272,641**	**1,898,935**
1,644,930	**536,536**	**7,692,886**	**51,939,993**
—	—	15,022	155,129
7,190,847	6,962,098	9,786,372	24,315,913
49,410	863,648	1,404,977	2,340,914
—	—	209,171	209,171
(9,560)	(7,870)	(158,636)	(14,772,151)
7,230,697	**7,817,876**	**11,256,906**	**12,248,976**
$ 8,875,627	**$ 8,354,412**	**$ 18,949,792**	**$ 64,188,969**

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 Position

(amounts in thousands)

Total fund balances – governmental funds		**$ 12,248,976**
Amounts reported for governmental activities in the Statement of Net Position 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	17,599,743	
State highway infrastructure	64,619,437	
Collections – nondepreciable	22,645	
Buildings and other depreciable property	24,979,827	
Intangible assets – amortizable	927,119	
Less: accumulated depreciation/amortization	(10,636,790)	
Construction in progress	9,904,097	
Intangible assets – nonamortizable	1,054,970	
		108,471,048
• State revenues that will be collected after year end, but are not available soon enough to pay for the current period expenditures and therefore are considered deferred inflows of resources in the funds.		1,898,935
• 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 Position.		252,264
• Bond discounts and premiums are amortized over the life of the bonds and are included in the governmental activities in the Statement of Net Position.		(2,786,776)
• Deferred inflows and outflows of resources resulting from bond refunding gains and losses, respectively, are amortized over the life of the bonds are not reported in the funds.		825,043
• General obligation bonds and related accrued interest totaling $80,222,803, revenue bonds totaling $7,591,779, and certificates of participation and commercial paper totaling $538,593 are not due and payable in the current period and, therefore, are not reported in the funds.		(88,353,175)
• The following liabilities are not due and payable in the current period; therefore, adjustments to these liabilities are not reported in the funds:		
Compensated absences	(3,956,714)	
Capital leases	(5,319,487)	
Net other postemployment benefits obligation	(15,193,946)	
Mandated costs	(6,696,590)	
Workers' compensation	(3,059,052)	
Proposition 98 funding guarantee	(1,914,064)	
Net pension obligation	(3,278,775)	
Pollution remediation obligations	(1,009,216)	
Other noncurrent liabilities	(265,431)	
		(40,693,275)
Net position of governmental activities		**$ (8,136,960)**

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

This page intentionally left blank.

Statement of Revenues, Expenditures, and Changes in Fund Balances

Governmental Funds

Year Ended June 30, 2013
(amounts in thousands)

	General	Federal
REVENUES		
Personal income taxes	$ 66,220,132	$ —
Sales and use taxes	20,429,772	—
Corporation taxes	7,261,910	—
Motor vehicle excise taxes	—	—
Insurance taxes	2,262,567	—
Other taxes	691,790	—
Intergovernmental	—	62,612,526
Licenses and permits	15,063	—
Charges for services	259,560	—
Fees	631,376	—
Penalties	151,782	30
Investment and interest	29,624	—
Escheat	551,580	—
Other	873,997	—
Total revenues	**99,379,153**	**62,612,556**
EXPENDITURES		
Current:		
General government	5,179,368	1,040,178
Education	41,556,256	6,587,056
Health and human services	28,164,652	49,667,993
Resources	1,144,918	364,516
State and consumer services	657,983	35,432
Business and transportation	5,978	3,895,122
Correctional programs	8,301,061	80,362
Capital outlay	710,440	—
Debt service:		
Bond and commercial paper retirement	1,297,473	70,990
Interest and fiscal charges	3,096,851	13,306
Total expenditures	**90,114,980**	**61,754,955**
Excess (deficiency) of revenues over (under) expenditures	9,264,173	857,601
OTHER FINANCING SOURCES (USES)		
General obligation bonds and commerical paper issued	—	—
Refunding debt issued	—	—
Payment to refund long-term debt	—	—
Premium on bonds issued	379,293	—
Remarketing bonds issued	—	—
Payment to remarketing agent	—	—
Capital leases	710,440	—
Transfers in	1,011,257	—
Transfers out	(2,890,451)	(820,967)
Total other financing sources (uses)	**(789,461)**	**(820,967)**
Net change in fund balances	8,474,712	36,634
Fund balances (deficit) – beginning	**(22,729,168)** *	**161,319**
Fund balances (deficit) – ending	**$ (14,254,456)**	**$ 197,953**

* Restated

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

Transportation	Environmental and Natural Resources	Nonmajor Governmental	Total
$ —	$ —	$ 1,204,444	$ 67,424,576
640,106	—	12,800,083	33,869,961
—	—	—	7,261,910
5,219,605	—	—	5,219,605
—	—	33,012	2,295,579
5,277	160,135	1,567,982	2,425,184
—	—	1,806,282	64,418,808
3,887,067	362,343	2,394,605	6,659,078
126,207	110,142	245,292	741,201
18,670	2,368,994	6,519,913	9,538,953
50,227	30,763	901,349	1,134,151
9,936	48,212	48,156	135,928
—	—	—	551,580
71,048	415,107	1,867,195	3,227,347
10,028,143	**3,495,696**	**29,388,313**	**204,903,861**
216,304	83,985	9,228,234	15,748,069
2,407	6,628	1,540,416	49,692,763
2,708	72,696	16,713,581	94,621,630
234,150	3,360,639	214,109	5,318,332
97,866	59,907	408,204	1,259,392
10,708,313	7,395	391,863	15,008,671
—	—	1,299,663	9,681,086
314	223,610	287,978	1,222,342
265,085	245,228	3,310,374	5,189,150
7,756	23,913	1,221,434	4,363,260
11,534,903	**4,084,001**	**34,615,856**	**202,104,695**
(1,506,760)	(588,305)	(5,227,543)	2,799,166
2,539,270	46,740	1,452,085	4,038,095
318,385	563,970	3,524,010	4,406,365
(101,880)	(405,160)	(2,440,605)	(2,947,645)
48,499	78,964	457,455	964,211
—	—	228,000	228,000
—	—	(226,968)	(226,968)
—	—	—	710,440
3,995	187,423	1,755,087	2,957,762
(797,402)	(31,984)	(357,950)	(4,898,754)
2,010,867	**439,953**	**4,391,114**	**5,231,506**
504,107	(148,352)	(836,429)	8,030,672
6,726,590	**7,966,228** *	**12,093,335** *	**4,218,304** *
$ 7,230,697	**$ 7,817,876**	**$ 11,256,906**	**$ 12,248,976**

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		**$ 8,030,672**
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	(360,351)	
Disposal of assets	(2,159,283)	
Purchase of assets	6,406,086	
		3,886,452
• Some revenues in the Statement of Activities do not provide current financial resources, and therefore, are unavailable in governmental funds. Revenues related to prior periods that became available during the current period are reported in the governmental funds. This amount is the net adjustment.		65,143
• 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.		(252,219)
• 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 Position. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position. The following amounts represent the difference between proceeds and repayments:		
General obligation bonds	(1,001,934)	
Revenue bonds	237,312	
Certificates of participation and commercial paper	(492,315)	
		(1,256,937)
• 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	(294,632)	
Capital leases	(383,286)	
Net other postemployment benefits obligation	(3,010,788)	
Mandated costs	(362,729)	
Workers' compensation	(237,549)	
Loans payable	2,032,275	
Proposition 98 funding guarantee	333,612	
Net pension obligation	(97,172)	
Pollution remediation obligations	33,831	
Other noncurrent liabilities	24,365	
		(1,962,073)
Change in net position of governmental activities		**$ 8,511,038**

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

This page intentionally left blank.

Statement of Net Position

Proprietary Funds

June 30, 2013

(amounts in thousands)

	Electric Power	Water Resources
ASSETS		
Current assets:		
Cash and pooled investments	$ —	$ 544,738
Amount on deposit with U.S. Treasury	—	—
Investments	—	—
Restricted assets:		
Cash and pooled investments	764,000	—
Due from other governments	—	—
Net investment in direct financing leases	—	—
Receivables (net)	—	92,373
Due from other funds	4,000	899
Due from other governments	—	20,227
Prepaid items	—	—
Inventories	—	7,413
Recoverable power costs (net)	111,000	—
Other current assets	14,000	—
Total current assets	893,000	665,650
Noncurrent assets:		
Restricted assets:		
Cash and pooled investments	637,000	76,825
Investments	300,000	74,001
Loans receivable	—	—
Investments	—	—
Net investment in direct financing leases	—	—
Receivables	—	—
Interfund receivables	—	91,517
Loans receivable	—	16,468
Recoverable power costs (net)	5,083,000	—
Long-term prepaid charges	—	897,370
Capital assets:		
Land	—	136,797
Collections – nondepreciable	—	—
Buildings and other depreciable property	—	4,880,380
Intangible assets – amortizable	—	36,768
Less: accumulated depreciation/amortization	—	(2,366,429)
Construction in progress	—	498,350
Intangible assets – nonamortizable	—	142,099
Other noncurrent assets	—	—
Total noncurrent assets	6,020,000	4,484,146
Total assets	**6,913,000**	**5,149,796**
DEFERRED OUTFLOWS OF RESOURCES	**106,000**	**124,591**
Total assets and deferred outflows of resources	**$ 7,019,000**	**$ 5,274,387**

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

Business-type Activities – Enterprise Funds						Governmental Activities
Public Buildings Construction	**State Lottery**	**Unemployment Programs**	**California State University**	**Nonmajor Enterprise**	**Total**	**Internal Service Funds**
$ —	$ 342,925	$ 3,135,982	$ 533,042	$ 812,288	$ 5,368,975	$ 941,011
—	—	39,963	—	—	39,963	—
—	133,867	—	2,101,965	—	2,235,832	—
2,400,778	—	—	—	34,571	3,199,349	—
—	—	—	—	20,448	20,448	—
443,707	—	—	10,992	19,306	474,005	—
197,801	362,744	1,275,655	161,990	46,115	2,136,678	45,665
30,134	277	22,416	436	2,332	60,494	310,889
—	—	137,425	—	204,361	362,013	7,964
—	5,768	5,223	39,945	1	50,937	109,692
—	7,863	—	—	2,699	17,975	84,910
—	—	—	—	—	111,000	—
—	—	—	—	—	14,000	—
3,072,420	853,444	4,616,664	2,848,370	1,142,121	14,091,669	1,500,131
328,122	—	—	39	—	1,041,986	—
21,738	—	—	—	10,662	406,401	—
—	—	—	—	325,930	325,930	—
—	828,347	—	417,729	22,701	1,268,777	—
7,148,043	—	—	371,361	—	7,519,404	—
—	—	30,476	272,644	—	303,120	—
—	—	611,690	—	5,600	708,807	16,975
—	—	—	87,171	3,661,635	3,765,274	—
—	—	—	—	—	5,083,000	—
10,912	19,413	—	—	2,371	930,066	—
—	6,469	—	72,350	1,272	216,888	2,312
—	—	—	6,051	—	6,051	—
—	142,820	17,726	6,205,510	17,975	11,264,411	633,822
—	—	12,279	123,648	1,350	174,045	59,065
—	(67,038)	(9,052)	(2,233,612)	(16,928)	(4,693,059)	(528,772)
1,701,212	—	—	387,569	—	2,587,131	1,233
—	—	255,008	6,691	181	403,979	29,358
—	—	—	17,329	15,501	32,830	—
9,210,027	930,011	918,127	5,734,480	4,048,250	31,345,041	213,993
12,282,447	**1,783,455**	**5,534,791**	**8,582,850**	**5,190,371**	**45,436,710**	**1,714,124**
213,937	**—**	**—**	**32,020**	**3,760**	**480,308**	**—**
$ 12,496,384	**$ 1,783,455**	**$ 5,534,791**	**$ 8,614,870**	**$ 5,194,131**	**$ 45,917,018**	**$ 1,714,124**

(continued)

Statement of Net Position (continued)

Proprietary Funds

June 30, 2013
(amounts in thousands)

	Electric Power	Water Resources
LIABILITIES		
Current liabilities:		
Accounts payable	$ 9,000	$ 106,490
Due to other funds	—	49,172
Due to component units	—	—
Due to other governments	—	98,753
Revenues received in advance	—	—
Deposits	—	—
Contracts and notes payable	—	—
Interest payable	52,000	13,741
Benefits payable	—	—
Current portion of long-term obligations	702,000	192,872
Other current liabilities	2,000	—
Total current liabilities	765,000	461,028
Noncurrent liabilities:		
Interfund payables	—	—
Loans payable	—	—
Lottery prizes and annuities	—	—
Compensated absences payable	487	33,305
Certificates of participation, commercial paper, and other borrowings	—	50,505
Capital lease obligations	—	—
General obligation bonds payable	—	241,835
Revenue bonds payable	6,249,000	2,479,684
Net other postemployment benefits obligation	4,513	140,470
Pollution remediation obligations	—	15,107
Revenues received in advance	—	—
Other noncurrent liabilities	—	175,589
Total noncurrent liabilities	6,254,000	3,136,495
Total liabilities	**7,019,000**	**3,597,523**
DEFERRED INFLOWS OF RESOURCES	—	471,436
Total liabilities and deferred inflows of resources	**$ 7,019,000**	**$ 4,068,959**

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

Business-type Activities – Enterprise Funds						Governmental Activities
Public Buildings Construction	**State Lottery**	**Unemployment Programs**	**California State University**	**Nonmajor Enterprise**	**Total**	**Internal Service Funds**
$ 200,200	$ 60,505	$ 7,200	$ 169,394	$ 4,120	$ 556,909	$ 264,732
19,421	375,155	35,056	—	2,934	481,738	107,471
—	—	—	—	—	—	2
11,782	—	50,313	—	60	160,908	1,280
5,790	3,141	39,060	244,712	42	292,745	331,582
—	—	—	—	—	—	761
—	—	—	—	—	—	10,715
122,314	—	—	—	12,712	200,767	—
—	—	763,914	—	—	763,914	—
534,853	491,123	—	284,978	38,211	2,244,037	17,985
—	—	44,718	349,569	16	396,303	9,113
894,360	929,924	940,261	1,048,653	58,095	5,097,321	743,641
—	—	—	—	—	—	139,282
—	—	8,585,318	—	—	8,585,318	—
—	707,781	—	—	—	707,781	—
—	7,816	55,296	89,528	2,776	189,208	162,900
—	—	—	26,715	—	77,220	—
—	—	—	847,352	—	847,352	—
—	—	—	—	584,033	825,868	—
11,221,620	—	—	3,649,307	479,415	24,079,026	—
—	33,788	105,661	219,018	6,779	510,229	365,286
—	—	—	—	—	15,107	—
—	—	—	11,439	—	11,439	—
—	2,078	—	180,234	75,360	433,261	50,751
11,221,620	751,463	8,746,275	5,023,593	1,148,363	36,281,809	718,219
12,115,980	**1,681,387**	**9,686,536**	**6,072,246**	**1,206,458**	**41,379,130**	**1,461,860**
—	—	—	—	—	471,436	—
$ 12,115,980	**$ 1,681,387**	**$ 9,686,536**	**$ 6,072,246**	**$ 1,206,458**	**$ 41,850,566**	**$ 1,461,860**

(continued)

Statement of Net Position (continued)

Proprietary Funds

June 30, 2013
(amounts in thousands)

	Electric Power	Water Resources
NET POSITION		
Investment in capital assets	$ —	$ 785,460
Restricted:		
Nonexpendable – endowments	—	—
Expendable:		
Construction	—	419,968
Debt service	—	—
Security for revenue bonds	—	—
Lottery	—	—
Unemployment programs	—	—
Other purposes	—	—
Total expendable	—	419,968
Unrestricted	—	—
Total net position (deficit)	**—**	**1,205,428**
Total liabilities, deferred inflows of resources, and net position	**$ 7,019,000**	**$ 5,274,387**

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

	Business-type Activities – Enterprise Funds						Governmental Activities
	Public Buildings Construction	**State Lottery**	**Unemployment Programs**	**California State University**	**Nonmajor Enterprise**	**Total**	**Internal Service Funds**
	$ —	$ 82,252	$ 275,960	$ 572,160	$ 2,816	$ 1,718,648	$ 127,459
	—	—	—	20,627	—	20,627	—
	373,608	—	—	20,567	—	814,143	—
	6,796	—	—	3,819	190,146	200,761	—
	—	—	—	—	346,377	346,377	—
	—	102,068	—	—	—	102,068	—
	—	—	3,433,769	—	—	3,433,769	—
	—	—	—	44,134	210,662	254,796	—
	380,404	102,068	3,433,769	68,520	747,185	5,151,914	—
	—	(82,252)	(7,861,474)	1,881,317	3,237,672	(2,824,737)	124,805
	380,404	**102,068**	**(4,151,745)**	**2,542,624**	**3,987,673**	**4,066,452**	**252,264**
	$ 12,496,384	**$ 1,783,455**	**$ 5,534,791**	**$ 8,614,870**	**$ 5,194,131**	**$ 45,917,018**	**$ 1,714,124**

(concluded)

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

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

Proprietary Funds

Year Ended June 30, 2013

(amounts in thousands)

	Electric Power	Water Resources
OPERATING REVENUES		
Unemployment and disability insurance	$ —	$ —
Lottery ticket sales	—	—
Power sales	(402,000)	146,277
Student tuition and fees	—	—
Services and sales	—	980,918
Investment and interest	—	—
Rent	—	—
Grants and contracts	—	—
Other	—	—
Total operating revenues	**(402,000)**	**1,127,195**
OPERATING EXPENSES		
Lottery prizes	—	—
Power purchases (net of recoverable power costs)	(426,000)	258,899
Personal services	—	273,393
Supplies	—	—
Services and charges	18,000	290,345
Depreciation	—	85,236
Scholarships and fellowships	—	—
Distributions to beneficiaries	—	—
Interest expense	—	—
Amortization (recovery) of long-term prepaid charges	—	—
Other	—	—
Total operating expenses	**(408,000)**	**907,873**
Operating income (loss)	6,000	219,322
NONOPERATING REVENUES (EXPENSES)		
Donations and grants	—	—
Private gifts	—	—
Investment and interest income	890,000	—
Interest expense and fiscal charges	(896,000)	(53,492)
Lottery payments for education	—	—
Other	—	(165,830)
Total nonoperating revenues (expenses)	**(6,000)**	**(219,322)**
Income (loss) before capital contributions and transfers	—	—
Capital contributions	—	—
Transfers in	—	—
Transfers out	—	—
Change in net position	—	—
Total net position (deficit) – beginning	—	**1,205,428**
Total net position (deficit) – ending	**$ —**	**$ 1,205,428**

* Restated

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

Business-type Activities – Enterprise Funds						Governmental Activities
Public Buildings Construction	**State Lottery**	**Unemployment Programs**	**California State University**	**Nonmajor Enterprise**	**Total**	**Internal Service Funds**
$ —	$ —	$ 18,590,498	$ —	$ —	$ 18,590,498	$ —
—	4,445,873	—	—	—	4,445,873	—
—	—	—	—	—	(255,723)	—
—	—	—	2,081,251	—	2,081,251	—
—	—	—	437,981	92,695	1,511,594	2,327,546
1,628	—	—	—	108,593	110,221	—
468,618	—	—	—	7,241	475,859	—
—	—	—	91,361	—	91,361	—
145,795	—	—	187,155	2,139	335,089	—
616,041	**4,445,873**	**18,590,498**	**2,797,748**	**210,668**	**27,386,023**	**2,327,546**
—	2,652,095	—	—	—	2,652,095	—
—	—	—	—	—	(167,101)	—
—	56,781	188,418	3,837,959	13,980	4,370,531	863,255
—	13,581	63	1,089,908	—	1,103,552	10,411
13,479	456,647	85,773	—	63,847	928,091	1,599,644
—	5,980	1,636	249,917	551	343,320	49,162
—	—	—	826,933	—	826,933	—
—	—	17,323,329	—	—	17,323,329	—
395,073	—	—	—	54,192	449,265	—
1,852	—	—	—	255	2,107	—
—	—	—	—	871	871	—
410,404	**3,185,084**	**17,599,219**	**6,004,717**	**133,696**	**27,832,993**	**2,522,472**
205,637	1,260,789	991,279	(3,206,969)	76,972	(446,970)	(194,926)
—	—	—	1,323,345	—	1,323,345	—
—	—	—	47,861	—	47,861	—
—	—	7,464	41,522	1,661	940,647	765
—	(52,309)	—	(191,824)	(533)	(1,194,158)	(394)
—	(1,262,058)	—	—	—	(1,262,058)	—
—	48	—	4,301	(4,952)	(166,433)	(897)
—	**(1,314,319)**	**7,464**	**1,225,205**	**(3,824)**	**(310,796)**	**(526)**
205,637	(53,530)	998,743	(1,981,764)	73,148	(757,766)	(195,452)
—	—	—	481	141,823	142,304	—
202	—	—	2,034,055	—	2,034,257	4,730
(8,172)	—	—	(16,540)	(11,786)	(36,498)	(61,497)
197,667	(53,530)	998,743	36,232	203,185	1,382,297	(252,219)
182,737 *	**155,598**	**(5,150,488)**	**2,506,392** *	**3,784,488** *	**2,684,155** *	**504,483**
$ 380,404	**$ 102,068**	**$ (4,151,745)**	**$ 2,542,624**	**$ 3,987,673**	**$ 4,066,452**	**$ 252,264**

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

Statement of Cash Flows

Proprietary Funds

Year Ended June 30, 2013

(amounts in thousands)

	Electric Power	Water Resources
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers/employers	$ (371,000)	$ 1,088,771
Receipts from interfund services provided	—	—
Payments to suppliers	(73,000)	(438,273)
Payments to employees	(6,000)	(273,393)
Payments for interfund services used	—	—
Payments for Lottery prizes	—	—
Claims paid to other than employees	—	—
Other receipts (payments)	21,000	2,709
Net cash provided by (used in) operating activities	**(429,000)**	**379,814**
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Changes in interfund payables and loans payable	—	—
Receipts of bond charges	869,000	—
Retirement of general obligation bonds	—	—
Retirement of revenue bonds	(574,000)	—
Interest paid on operating debt	(341,000)	—
Transfers in	—	—
Transfers out	—	—
Grants received / (provided)	—	—
Lottery payments for education	—	—
Net cash provided by (used in) noncapital financing activities	**(46,000)**	—
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Changes in interfund payables and loans payable	—	—
Acquisition of capital assets	—	(200,249)
Proceeds from sale of capital assets	—	—
Proceeds from notes payable and commercial paper	—	121,961
Principal paid on notes payable and commercial paper	—	(100,239)
Proceeds from capital leases	—	—
Payment on capital debt and leases	—	—
Retirement of general obligation bonds	—	(59,455)
Proceeds from revenue bonds	—	899,887
Retirement of revenue bonds	—	(756,280)
Interest paid	—	(160,668)
Grants received	—	—
Net cash provided by (used in) capital and related financing activities	—	**(255,043)**
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	—	2,674
Earnings (loss) on investments	11,000	8,468
Net cash provided by (used in) investing activities	**11,000**	**11,142**
Net increase (decrease) in cash and pooled investments	(464,000)	135,913
Cash and pooled investments – beginning	**1,865,000**	**485,650**
Cash and pooled investments – ending	**$ 1,401,000**	**$ 621,563**

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

Business-type Activities – Enterprise Funds						Governmental Activities
Public Buildings Construction	**State Lottery**	**Unemployment Programs**	**California State University**	**Nonmajor Enterprise**	**Total**	**Internal Service Funds**
$ 844,190	$ 4,407,307	$ 18,343,035	$ 2,495,410	$ 367,013	$ 27,174,726	$ 2,487,452
—	—	4,723	—	418	5,141	40,781
(3,894)	(185,080)	(78,639)	(1,089,009)	(67,487)	(1,935,382)	(1,489,656)
—	(43,282)	(157,691)	(3,782,921)	(10,993)	(4,274,280)	(769,523)
—	(18,752)	(9,613)	(1,124)	(519)	(30,008)	(203,270)
—	(2,929,425)	—	—	—	(2,929,425)	—
—	(302,965)	(17,285,755)	—	—	(17,588,720)	—
(256,203)	142,755	53,598	(600,141)	(27,430)	(663,712)	(11,631)
584,093	**1,070,558**	**869,658**	**(2,977,785)**	**261,002**	**(241,660)**	**54,153**
—	—	(691,850)	(422)	5	(692,267)	(612)
—	—	—	—	—	869,000	—
—	—	—	—	(286,894)	(286,894)	—
—	—	—	—	(78,755)	(652,755)	—
—	—	—	—	—	(341,000)	(3)
202	—	—	1,986,671	—	1,986,873	4,730
(8,172)	—	—	—	(15,987)	(24,159)	(61,497)
—	—	—	1,491,288	—	1,491,288	—
—	(1,187,366)	—	—	—	(1,187,366)	—
(7,970)	**(1,187,366)**	**(691,850)**	**3,477,537**	**(381,631)**	**1,162,720**	**(57,382)**
—	—	—	—	189	189	—
(1,370,049)	(3,102)	(52,889)	(416,056)	(692)	(2,043,037)	(60,928)
—	4	—	236	47	287	1,349
—	—	—	19,585	—	141,546	—
—	—	—	—	—	(100,239)	(10,912)
—	—	—	22,601	—	22,601	—
—	—	—	(370,200)	—	(370,200)	—
—	—	—	—	—	(59,455)	—
1,274,119	—	—	564,631	—	2,738,637	—
(554,985)	—	—	(313,843)	—	(1,625,108)	—
—	—	—	—	—	(160,668)	(392)
—	—	—	21,380	216,705	238,085	—
(650,915)	**(3,098)**	**(52,889)**	**(471,666)**	**216,249**	**(1,217,362)**	**(70,883)**
—	(119,590)	—	(12,283,345)	—	(12,705,543)	—
—	275,316	17,101	12,178,674	6,559	12,780,258	—
—	93,928	901,244	121,176	33,400	1,152,422	281,065
—	23,800	7,464	43,148	1,709	95,589	823
—	**273,454**	**925,809**	**59,653**	**41,668**	**1,322,726**	**281,888**
(74,792)	153,548	1,050,728	87,739	137,288	1,026,424	207,776
2,803,692	**189,377**	**2,085,254**	**445,342**	**709,571**	**8,583,886**	**733,235**
$ 2,728,900	**$ 342,925**	**$ 3,135,982**	**$ 533,081**	**$ 846,859**	**$ 9,610,310**	**$ 941,011**

(continued)

Statement of Cash Flows (continued)

Proprietary Funds

Year Ended June 30, 2013

(amounts in thousands)

	Electric Power	Water Resources
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		
Operating income (loss)	$ 6,000	$ 219,322
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:		
Interest expense on operating debt	—	—
Depreciation	—	85,236
Provisions and allowances	—	—
Accretion of capital appreciation bonds	—	—
Amortization of premiums and discounts	—	—
Amortization of long-term prepaid charges	—	9,362
Other	—	2,709
Change in assets and liabilities:		
Receivables	—	18,274
Due from other funds	—	—
Due from other governments	—	(4,440)
Prepaid items	—	—
Inventories	—	22,240
Net investment in direct financing leases	—	—
Recoverable power costs (net)	(421,000)	—
Other current assets	35,000	—
Loans receivable	—	—
Other noncurrent assets	—	—
Accounts payable	(49,000)	55,258
Due to other funds	—	15,148
Due to component units	—	—
Due to other governments	—	(43,295)
Deposits	—	—
Interest payable	—	—
Other current liabilities	—	—
Interfund payables	—	—
Current portion of revenues received in advance	—	—
Benefits payable	—	—
Lottery prizes and annuities	—	—
Compensated absences payable	—	—
Long-term portion of revenue received in advance	—	—
Other noncurrent liabilities	—	—
Total adjustments	(435,000)	160,492
Net cash provided by (used in) operating activities	**$ (429,000)**	**$ 379,814**
Noncash investing, capital, and financing activities		
Interest accreted on annuitized prizes	$ —	$ —
Interest accreted on zero coupon bonds	—	—
Unclaimed Lottery prizes directly allocated to Education Fund	—	—
Unrealized gain (loss) on investment	—	—
Amortization of prepaid interest related to capital lease obligations	—	—
Contributed capital assets	—	—
Acquisition of capital assets through capital lease	—	—
Change in accrued capital assets purchases	—	—
Gifts in-kind	—	—
Amortization of loss on debt refundings	—	—
Amortization of bond premium and discount	—	36,885
Principal retirements of long-term debt on proceeds received from issuance of bonds	—	632,125
Other miscellaneous noncash transactions	—	—

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

Business-type Activities – Enterprise Funds						Governmental Activities
Public Buildings Construction	**State Lottery**	**Unemployment Programs**	**California State University**	**Nonmajor Enterprise**	**Total**	**Internal Service Funds**
$ 205,637	$ 1,260,789	$ 991,279	$ (3,206,969)	$ 76,972	$ (446,970)	$ (194,926)
—	—	—	—	—	—	(114)
—	5,980	1,636	249,917	551	343,320	49,162
—	(11,426)	—	—	—	(11,426)	—
—	—	—	—	3,936	3,936	—
(28,468)	—	—	—	47	(28,421)	—
22,679	—	—	—	4,359	36,400	—
1,523	99	—	—	(6,874)	(2,543)	—
—	(48,165)	23,262	(58,027)	1,699	(62,957)	88,163
(23,295)	—	14,469	(1,124)	5,865	(4,085)	(124,743)
—	—	81,942	—	1,036	78,538	1,120
—	(18,356)	—	(68,303)	11	(86,648)	(6,909)
—	84	—	—	593	22,917	6,454
399,823	—	—	—	19,342	419,165	—
—	—	—	—	—	(421,000)	—
—	—	180	—	4,201	39,381	43
—	—	—	—	184,463	184,463	—
—	(3,553)	—	—	—	(3,553)	—
175	17,699	7,197	11,654	(2,070)	40,913	108,193
(361)	(5,671)	6,350	—	(2,453)	13,013	(23,771)
—	—	—	—	—	—	(1,032)
(323)	—	1,501	—	(302)	(42,419)	1,218
—	—	—	762	(71)	691	(6,922)
6,690	—	—	—	(100)	6,590	296
—	580	(55,734)	59,198	(7,574)	(3,530)	5,566
—	—	—	—	—	—	(29)
13	311	(270,725)	—	(9)	(270,410)	58,584
—	—	37,574	5,505	82	43,161	36,187
—	(134,695)	—	—	—	(134,695)	—
—	—	9,354	1,217	100	10,671	17,543
—	—	—	(16,202)	(212)	(16,414)	—
—	6,882	21,373	44,587	(22,590)	50,252	40,070
378,456	(190,231)	(121,621)	229,184	184,030	205,310	249,079
$ 584,093	**$ 1,070,558**	**$ 869,658**	**$ (2,977,785)**	**$ 261,002**	**$ (241,660)**	**$ 54,153**
						(concluded)
$ —	$ 49,777	$ —	$ —	$ —	$ 49,777	$ —
—	16,035	—	—	—	16,035	—
—	22,313	—	—	—	22,313	—
—	(42,158)	—	—	—	(42,158)	—
—	—	—	2,795	—	2,795	—
—	—	—	19,015	—	19,015	—
—	—	—	1,390	—	1,390	—
—	—	—	(5,889)	—	(5,889)	—
—	—	—	502	—	502	—
—	—	—	10,594	—	10,594	—
—	—	—	(8,199)	—	28,686	—
—	—	—	—	—	632,125	—
—	—	—	5,259	—	5,259	15,144

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

Statement of Fiduciary Net Position

Fiduciary Funds and Similar Component Units

June 30, 2013
(amounts in thousands)

	Private Purpose Trust	Pension and Other Employee Benefit Trust	Investment Trust: Local Agency Investment	Agency
ASSETS				
Cash and pooled investments	$ 99,345	$ 4,640,690	$ 21,193,406	$ 3,968,545
Investments, at fair value:				
Short-term	—	8,741,312	—	—
Equity securities	2,600,359	227,650,389	—	—
Debt securities	1,591,782	84,719,163	—	—
Real estate	165,882	51,196,862	—	—
Other	698,174	66,268,645	—	—
Securities lending collateral	—	40,497,424	—	—
Total investments	5,056,197	479,073,795	—	—
Receivables (net)	6,014	5,127,682	32,164	1,477,731
Due from other funds	2	482,303	—	18,271,064
Due from other governments	—	18,018	—	21,048
Prepaid items	—	—	—	12,033
Interfund receivables	—	—	—	—
Loans receivable	—	23,042	—	7,153
Other assets	210,418	949,551	—	87
Total assets	**5,371,976**	**490,315,081**	**21,225,570**	**23,757,661**
DEFERRED OUTFLOWS OF RESOURCES	—	—	—	—
Total assets and deferred outflows of resources	**5,371,976**	**490,315,081**	**21,225,570**	**$ 23,757,661**
LIABILITIES				
Accounts payable	6,372	2,597,584	382	$ 10,084,927
Due to other governments	—	79	13,088	11,702,335
Tax overpayments	—	—	—	684
Benefits payable	—	2,488,929	—	220,767
Revenues received in advance	—	—	—	18,501
Deposits	210,418	—	—	989,518
Securities lending obligations	—	40,272,852	—	—
Loans payable	—	937,494	—	—
Other liabilities	530	837,652	—	740,929
Total liabilities	**217,320**	**47,134,590**	**13,470**	**23,757,661**
DEFERRED INFLOWS OF RESOURCES	—	—	—	—
Total liabilities and deferred inflows of resources	**217,320**	**47,134,590**	**13,470**	**$ 23,757,661**
NET POSITION				
Held in trust for pension benefits, pool participants, and other purposes	**$ 5,154,656**	**$ 443,180,491**	**$ 21,212,100**	

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

Statement of Changes in Fiduciary Net Position

Fiduciary Funds and Similar Component Units

Year Ended June 30, 2013
(amounts in thousands)

	Private Purpose Trust	Pension and Other Employee Benefit Trust	Investment Trust Local Agency Investment
ADDITIONS			
Contributions:			
Employer	$ —	$ 13,025,787	$ —
Plan member	—	7,049,253	—
Total contributions	—	20,075,040	—
Investment income:			
Net appreciation (depreciation) in fair value of investments	288,283	44,767,618	—
Interest, dividends, and other investment income	165,302	10,666,103	64,143
Less: investment expense	(4,519)	(3,039,584)	—
Net investment income	449,066	52,394,137	64,143
Receipts from depositors	2,525,632	—	22,937,870
Other	—	22,988	—
Total additions	**2,974,698**	**72,492,165**	**23,002,013**
DEDUCTIONS			
Distributions paid and payable to participants	—	28,743,752	62,497
Refunds of contributions	—	430,234	—
Administrative expense	1	587,692	1,646
Interest expense	—	187,084	—
Payments to and for depositors	2,485,162	673,609	23,609,233
Total deductions	**2,485,163**	**30,622,371**	**23,673,376**
Change in net position	489,535	41,869,794	(671,363)
Net position – beginning	**4,665,121**	**401,310,697** *	**21,883,463**
Net position – ending	**$ 5,154,656**	**$ 443,180,491**	**$ 21,212,100**

* Restated

This page intentionally left blank.

Discretely Presented Component Units Financial Statements

Statement of Net Position

Discretely Presented Component Units – Enterprise Activity

June 30, 2013

(amounts in thousands)

	University of California	California Housing Finance Agency
ASSETS		
Current assets:		
Cash and pooled investments	$ 334,008	$ 1,273,366
Investments	5,294,206	137,625
Restricted assets:		
Cash and pooled investments	—	—
Investments	—	—
Receivables (net)	3,432,089	209,477
Due from primary government	209,112	—
Due from other governments	438,815	—
Prepaid items	—	409
Inventories	185,991	—
Other current assets	235,440	4,100
Total current assets	10,129,661	1,624,977
Noncurrent assets:		
Restricted assets:		
Cash and pooled investments	—	—
Investments	—	—
Investments	22,431,417	489,991
Receivables (net)	1,139,619	—
Loans receivable	—	4,631,407
Long-term prepaid charges	—	17,728
Capital assets:		
Land	840,050	—
Collections – nondepreciable	354,109	—
Buildings and other depreciable property	39,381,859	2,104
Intangible assets – amortizable	654,373	—
Less: accumulated depreciation/amortization	(17,948,712)	(1,142)
Construction in progress	2,898,206	—
Intangible assets – nonamortizable	—	—
Other noncurrent assets	268,614	20,556
Total noncurrent assets	50,019,535	5,160,644
Total assets	**60,149,196**	**6,785,621**
DEFERRED OUTFLOWS OF RESOURCES	**45,758**	**126,717**
Total assets and deferred outflows of resources	**$ 60,194,954**	**$ 6,912,338**

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

Nonmajor Component Units	Total
$ 460,680	$ 2,068,054
390,114	5,821,945
90,659	90,659
11,636	11,636
302,000	3,943,566
13	209,125
—	438,815
759	1,168
—	185,991
40,018	279,558
1,295,879	13,050,517
34,218	34,218
14,498	14,498
1,588,809	24,510,217
284,662	1,424,281
305,508	4,936,915
—	17,728
130,656	970,706
8,264	362,373
1,959,458	41,343,421
20,169	674,542
(942,463)	(18,892,317)
19,336	2,917,542
5,131	5,131
44,300	333,470
3,472,546	58,652,725
4,768,425	**71,703,242**
5,071	**177,546**
$ 4,773,496	**$ 71,880,788**

(continued)

Statement of Net Position (continued)

Discretely Presented Component Units – Enterprise Activity

June 30, 2013
(amounts in thousands)

	University of California	California Housing Finance Agency
LIABILITIES		
Current liabilities:		
Accounts payable	$ 2,231,145	$ 116,555
Due to other governments	—	595
Revenues received in advance	994,580	—
Deposits	509,090	244,112
Contracts and notes payable	—	2,888
Interest payable	—	70,690
Securities lending obligations	1,468,772	—
Benefits payable	—	—
Current portion of long-term obligations	2,072,009	110,346
Other current liabilities	2,748,119	85
Total current liabilities	10,023,715	545,271
Noncurrent liabilities:		
Compensated absences payable	237,331	—
Certificates of participation, commercial paper, and other borrowings	—	—
Capital lease obligations	2,394,586	—
Revenue bonds payable	12,091,416	4,791,094
Net other postemployment benefits obligation	7,577,366	18,685
Pollution remediation obligation	66,523	—
Other noncurrent liabilities	4,876,948	250,587
Total noncurrent liabilities	27,244,170	5,060,366
Total liabilities	**37,267,885**	**5,605,637**
DEFERRED INFLOWS OF RESOURCES	**31,575**	—
Total liabilities and deferred inflows of resources	**37,299,460**	**5,605,637**
NET POSITION		
Investment in capital assets	11,954,384	980
Restricted:		
Nonexpendable – endowments	3,916,721	—
Expendable:		
Endowments and gifts	8,149,631	—
Education	947,426	—
Indenture	—	347,318
Employee benefits	—	—
Workers' compensation liability	—	—
Statute	—	1,070,365
Other purposes	—	—
Total expendable	9,097,057	1,417,683
Unrestricted	(2,072,668)	(111,962)
Total net position	**22,895,494**	**1,306,701**
Total liabilities, deferred inflows of resources, and net position	**$ 60,194,954**	**$ 6,912,338**

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

Nonmajor Component Units	Total
$ 94,717	$ 2,442,417
—	595
62,631	1,057,211
1,438	754,640
7,494	10,382
1,981	72,671
—	1,468,772
—	—
107,382	2,289,737
124,482	2,872,686
400,125	10,969,111
11,676	249,007
63,170	63,170
349,227	2,743,813
366,734	17,249,244
123,015	7,719,066
—	66,523
365,857	5,493,392
1,279,679	33,584,215
1,679,804	**44,553,326**
2,481	**34,056**
1,682,285	**44,587,382**
522,541	12,477,905
867,289	4,784,010
6,903	8,156,534
776,111	1,723,537
—	347,318
—	—
—	—
278,519	1,348,884
21,814	21,814
1,083,347	11,598,087
618,034	(1,566,596)
3,091,211	**27,293,406**
$ 4,773,496	**$ 71,880,788**

(concluded)

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

Statement of Activities

Discretely Presented Component Units – Enterprise Activity

Year Ended June 30, 2013
(amounts in thousands)

	University of California	California Housing Finance Agency
OPERATING EXPENSES		
Personal services	$ 17,299,665	$ 29,853
Scholarships and fellowships	591,610	—
Supplies	2,465,149	—
Services and charges	281,276	50,472
Department of Energy laboratories	1,026,088	—
Depreciation	1,555,254	284
Distributions to beneficiaries	—	—
Interest expense and fiscal charges	669,538	171,835
Amortization of long-term prepaid charges	—	68,613
Grants provided	286,222	—
Other	3,455,257	111,653
Total operating expenses	**27,630,059**	**432,710**
PROGRAM REVENUES		
Charges for services	15,325,540	39,976
Operating grants and contributions	7,655,258	38,624
Capital grants and contributions	256,670	—
Total program revenues	**23,237,468**	**78,600**
Net revenues (expenses)	(4,392,591)	(354,110)
GENERAL REVENUES		
Investment and interest income (loss)	1,687,977	264,168
Other	2,355,795	39,275
Total general revenues	**4,043,772**	**303,443**
Change in net position	(348,819)	(50,667)
Net position – beginning	**23,244,313** *	**1,357,368**
Net position – ending	**$ 22,895,494**	**$ 1,306,701**

* Restated

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

Nonmajor Component Units	Total
$ 463,575	$ 17,793,093
51,153	642,763
9,326	2,474,475
1,241,747	1,573,495
—	1,026,088
69,848	1,625,386
—	—
38,253	879,626
—	68,613
—	286,222
65,017	3,631,927
1,938,919	**30,001,688**
1,022,680	16,388,196
546,344	8,240,226
17,350	274,020
1,586,374	**24,902,442**
(352,545)	(5,099,246)
163,335	2,115,480
411,249	2,806,319
574,584	**4,921,799**
222,039	(177,447)
2,869,172 *	**27,470,853** *
$ 3,091,211	**$ 27,293,406**

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

This page intentionally left blank.

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, 2013:

GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements; improves financial reporting by addressing issues relating to service concession arrangements which are a type of public-private or public-public partnership;*

GASB Statement No. 61, *The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34; modifies certain requirements for inclusion of component units (legally separate organizations) in the financial reporting entity;*

GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989, Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) Pronouncements*; *improves financial reporting by contributing to GASB's efforts to codify all sources of GAAP for state and local governments so that they derive from a single source;*

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*; *provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources and their effect on government's net position; and*

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities; establishes accounting and financial reporting standards that reclassify as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.*

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. 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 legally separate fiduciary component units that administer pension and other employee benefit trust funds. The State appoints a voting majority of the board members of both plans which, due to their fiduciary nature, 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 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 plan. CalPERS administers the following seven pension and other employee benefits 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 Plan, 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. The State is financially accountable for CalSTRS. CalSTRS administers four pension and other employee benefit trust funds, the Defined Benefit Program, the Defined Benefit Supplement Program, the Cash Balance Benefit Program, and the Replacement Benefit Program. 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 California Housing Finance Agency, 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 provides financial assistance to the University. 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, 1111 Franklin Street, Oakland, California 94607-5200.

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 appoints the executive director who administers the day-to-day operations. Copies of CalHFA's financial statements may be obtained from the California Housing Finance Agency, P.O. Box 4034, Sacramento, California 95812.

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. 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, and the primary government can impose its will on the entity or the entity provides a specific financial benefit to or imposes a financial burden on 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;

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, 2012);

The Public Employees' Contingency Reserve, which provides health benefit plans for state employees and annuitants;

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 *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.

The following entities were previously reported as Component Units but have been reclassified as Related Organization due to changes in their reporting requirements pursuant to implementation of GASB Statement No. 61, *The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34:*

1. State Compensation Insurance Fund
2. California Pollution Control Financing Authority
3. California Health Facilities Financing Authority
4. California School Finance Authority
5. California Educational Facilities Authority

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. 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, 2013, CADA had total assets of $33 million, total liabilities of $20 million, and total net position of $13 million. Total revenues for the fiscal year were $10 million and expenses were $11 million, resulting in a decrease in net position of $400 thousand. Because the primary government does not have 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 *State Compensation Insurance Fund* (*State Fund*) was established by the State of California through legislation enacted in 1913 to provide an available market for workers' compensation insurance to employees located in California. State Fund operates in competition with other insurance carriers to serve California businesses. The State appoints all eleven members of the State Fund's governing board. 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 State Fund, the financial information of this institution is not included in the financial statement of this report. For information regarding obtaining copies of the financial statements of the State Fund, contact State Compensation Insurance Fund, 333 Bush Street, 8th Floor, San Francisco, California 94104.

The *California Health Benefit Exchange (the Exchange),* an independent public entity, offers new health insurance to individuals, families, and small businesses. A five-member board of state-elected officials governs the Exchange. The State's accountability for this institution does not extend beyond making the appointments. Because the primary government is not financially accountable for the Exchange, 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 Exchange, contact Covered California, P.O. Box 989725, West Sacramento, California 95798-9725.

The *California Pollution Control Financing Authority (CPCFA)* was created through the California Pollution Control Financing Authority Act of 1972. The CPCFA is a legally separate entity that provides financing for pollution control facilities. A three-member board of state-elected officials governs the CPCFA. The State's accountability for this institution does not extend beyond making the appointments. Because the primary government is not financially accountable for the CPCFA, 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 CPCFA, contact the State Treasurer's Office, 915 Capitol Mall, Room 457, Sacramento, California 95814.

The *California Health Facilities Financing Authority (CHFFA)* was established by the State of California through legislation enacted in 1979. The CHFFA is a legally separate entity that provides financing for the construction, equipping, and acquisition of health facilities. A nine-member board of state-elected officials and appointees govern the CHFFA. The State's accountability for this institution does not extend beyond making the appointments. Because the primary government is not financially accountable for the CHFFA, 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 CHFFA, contact the State Treasurer's Office, 915 Capitol Mall, Suite 590, Sacramento, California 95814.

The *California Educational Facilities Authority (CEFA)* was created by the Board of Control Approval in 1974. The CEFA is a legally separate entity established to issue revenue bonds to finance loans for students attending public and private colleges and universities, and to assist private educational institutions of higher learning in financing the expansion and construction of educational facilities. A five-member board of state-elected officials and appointees govern the CEFA. The State's accountability for this institution does not extend beyond making the appointments. Because the primary government is not financially accountable for the CEFA, 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 for the CEFA, contact the State Treasurer's Office, 915 Capitol Mall, Suite 590, Sacramento, California 95814.

The *California School Finance Authority (CSFA)* was created in 1985. The CSFA is a legally separate entity that provides loans to school and community college districts to assist them in obtaining equipment and facilities. A three-member board of state officials governs the CSFA. The State's accountability for this institution does not extend beyond making the appointments. Because the primary government is not financially accountable for the CSFA, the financial information for this institution is not included in the financial statements of this report. For information regarding obtaining copies of the financial statements of the CSFA, contact the State Treasurer's Office, 304 South Broadway, Suite 550, Los Angeles, California 90013.

B. Government-wide and Fund Financial Statements

Government-wide financial statements (the Statement of Net Position 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 Position reports all of the financial and capital resources of the government as a whole in a format in which assets and deferred outflows of resources equal liabilities and deferred inflows of resources, plus net position. 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 activities primarily supported by taxes, grants, and similar revenue sources.

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 position, 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. The State adopted the provisions of GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* during the year ending June 30, 2013.

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 Buildings 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 *Unemployment Programs Fund* accounts for employer and worker contributions used for payments of unemployment insurance and disability benefits.

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.

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 position 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 California Housing Finance Agency, 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 Position. 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 California State University Trust 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. Long-term Prepaid Charges

The long-term prepaid charges account in the enterprise funds primarily represents operating and maintenance 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 long-term prepaid charges. These charges are recognized when billed in the future years under the terms of water supply contracts. The long-term prepaid charges for the Public Buildings Construction Fund include prepaid insurance costs. Long-term prepaid charges are also included in the State Lottery Fund and nonmajor enterprise funds. These prepaid costs are incurred in connection with certain contracts that extend beyond a one-year period, which are amortized as expenses over the remaining life of the contracts.

Bond issuance costs were previously reported as deferred charges. Per GASB 65, these costs should be expensed as incurred, excluding the insurance costs. For fiscal year 2012-13, bond issuance costs are expensed in the State of California's financial statements.

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, 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 Position.

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 Position.

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 and discounts 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 and discount. 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 and discount.

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 Position and Fund Balance

The difference between fund assets, deferred outflows of resources, liabilities, and deferred inflows of resources is called "net position" 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 position:

Net investment in capital assets, 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 position results from transactions with purpose restrictions and is designated as either *nonexpendable* or *expendable*. *Nonexpendable restricted net* position is subject to externally imposed restrictions that must be retained in perpetuity. *Expendable restricted net* position is subject to externally imposed restrictions that can be fulfilled by actions of the State. As of June 30, 2013, the government-wide financial statements show restricted net position for the primary government of $29.5 billion, of which $6.7 billion is due to enabling legislation.

Unrestricted net position is neither restricted nor invested in capital assets.

In the fund financial statements, proprietary funds include categories of net position 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 balances include 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.

The *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 position is amounts held in trust for benefits and other purposes.

L. Restatement of Beginning Fund Balances and Net Position

Schedule of Restatement of Beginning Fund Balances and Net Position
(amounts in thousands)

Fund Financial Statements

Governmental Funds		
Major Governmental Funds		
General Fund		
Fund balances as of June 30, 2012, as previously reported	$	(22,961,288)
Overstatement of 2011-12 General Fund expenditures		232,120
Fund balances as of July 1, 2012, as restated	**$**	**(22,729,168)**
Environmental and Natural Resources		
Fund balances as of June 30, 2012, as previously reported	$	7,965,054
GASB 61 adjustments		1,174
Fund balances as of July 1, 2012, as restated	**$**	**7,966,228**
Nonmajor Governmental Funds		
Fund balances as of June 30, 2012, as previously reported	$	11,943,613
Deferred payroll adjustment		11
Reclass from agency fund to special revenue fund		149,711
Fund balances as of July 1, 2012, as restated	**$**	**12,093,335**
Enterprise Funds		
Major Enterprise Funds		
California State University		
Net position as of June 30, 2012, as previously reported	$	2,564,751
GASB 61 adjustments		(58,359)
Net position as of July 1, 2012, as restated	**$**	**2,506,392**
Public Buildings Construction Fund		
Net position as of June 30, 2012, as previously reported	$	239,458
GASB 65 adjustments		(56,721)
Net position as of July 1, 2012, as restated	**$**	**182,737**
Nonmajor Enterprise Funds		
Net position as of June 30, 2012, as previously reported	$	3,792,279
GASB 65 adjustments		(7,791)
Net position as of July 1, 2012, as restated	**$**	**3,784,488**

Fund Financial Statements (continued)

Fiduciary Funds		
Pension and other Employee Benefit Trust		
Net position as of June 30, 2012, as previously reported	$	401,333,900
CalPERS Defined Contribution Pension Plan adjustments		(23,203)
Net position as of July 1, 2012, as restated	**$**	**401,310,697**
Discretely Presented Component Units		
Major Component Units		
University of California		
Net position as of June 30, 2012, as previously reported	$	23,404,025
Change in accounting policy		(159,712)
Net position as of July 1, 2012, as restated	**$**	**23,244,313**
Nonmajor Component Units		
Net position as of June 30, 2012, as previously reported	$	2,915,162
GASB 45 adjustments		(362)
GASB 61 adjustments		(39,366)
GASB 65 adjustments		(6,540)
Other adjustments		278
Net position as of July 1, 2012, as restated	**$**	**2,869,172**
Eliminated Major Component Units		
State Compensation Insurance		
Net position as of June 30, 2012, as previously reported	$	7,083,903
GASB 61 adjustments		(7,083,903)
Net position as of July 1, 2012, as restated	**$**	**—**
Public Employees' Benefits		
Net position as of June 30, 2012, as previously reported	$	301,826
GASB 61 adjustments		(301,826)
Net position as of July 1, 2012, as restated	**$**	**—**

Schedule of Restatement of Beginning Fund Balances and Net Position (continued)

(amounts in thousands)

Government-wide Financial Statements

Governmental Activities

Net position as of June 30, 2012, as previously reported	$	(18,257,716)
GASB 61 adjustments		(6,044)
GASB 65 adjustments		(194,668)
General Fund balance adjustment		232,120
Nonmajor Governmental Fund balance adjustment		149,722
Overstatement of 2011-12 capital leases		240,140
Various capital assets adjustments		1,293,866
Increase in pollution remediation obligation		(105,417)
Other adjustments		(1)
Net position as of July 1, 2012, as restated	**$**	**(16,647,998)**

Business-type Activities

Net position as of June 30, 2012, as previously reported	$	2,807,029
GASB 61 adjustments		(58,359)
GASB 65 adjustments		(64,512)
Other adjustments		(3)
Net position as of July 1, 2012, as restated	**$**	**2,684,155**

Component Units

Net position as of June 30, 2012, as previously reported	$	35,062,284
GASB 45 adjustments		(362)
GASB 61 adjustments		(7,425,095)
GASB 65 adjustments		(6,540)
Adjustments due to change in accounting policy		(159,712)
Other adjustments		278
Net position as of July 1, 2012, as restated	**$**	**27,470,853**

This page intentionally left blank.

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.

N. Deferred Outflows and Deferred Inflows of Resources

The government-wide and fund-based financial statements report deferred outflows of resources and deferred inflows of resources.

Deferred outflows of resources are consumption of assets by the primary government and its component units that are applicable to future reporting periods. Deferred outflows of resources are presented separately after "Total Assets" in the State's financial statements.

Deferred inflows of resources are acquisition of assets by the primary government and its component units that are applicable to future reporting periods. Deferred inflows of resources are presented separately after "Total Liabilities" in the State's financial statements.

Additional information on the State's deferred outflows of resources and deferred inflows of resources can be found in Note 21: *Deferred Outflows of Resources and Deferred Inflows of Resources Including Service Concession Arrangements*.

O. Abnormal Fund Balances

In fiscal year 2012-13, Water Resources Electric Power fund had a net refund of $405 million for power charges revenue. The refund resulted from lower power sales, return of prior year over-collection, and return of reserves, as lower levels of reserve were required. During the fiscal year 2012-13, the fund returned $449 million through adjustments to power charges and separate monthly payments to ratepayers.

P. Nonmajor Enterprise Segment Information

Two nonmajor enterprise fund segments are displayed discretely in the Combining Statement of Net Position; the Combining Statement of Revenues, Expenses, and Changes in Fund Net Position; and the Statement of Cash Flows in the Nonmajor Enterprise Funds. 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 deferred outflows of resources, and liabilities and deferred inflows of resources. All of the activities reported for the fund segments listed below meet these requirements.

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.

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, 2013, were legally made, and they had the effect of decreased spending authority for the Budgetary/Legal Basis reported General Fund and Transportation Funds, and increased spending authority for the Environmental and Natural Resources 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 Position. 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, 2013, the discretely presented component units accounted for approximately 2.8% 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, 2013, 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, 2013, the State Treasurer's Office had on deposit with a fiscal agent amounts totaling $28 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, 2013, the weighted average maturity of the securities in the pooled investment program administered by the State Treasurer's Office was approximately 284 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, 2013, 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 2012-13 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, 2013, structured notes and medium-term, asset-backed securities comprised approximately 1.88% 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 0.08% 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, 2013
(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	0.10 - 1.35	53 days - 3.34 years	$ 35,901,748	1.03
U.S. agency bonds and discount notes	0.09 - 0.45	61 days - 2.71 years	3,474,691	0.66
Supranational debentures and discount notes (IBRD)	0.14 - 0.51	149 days - 169 days	450,283	0.46
Small Business Administration loans	0.25 - 1.38	0.25 years	510,254	0.25 [2]
Mortgage-backed securities [3]	5.23 - 6.00	1.59 years - 2.92 years	208,754	2.33
Certificates of deposit	0.09 - 0.46	1 day - 1.25 years	9,266,791	0.16
Commercial paper	0.05 - 0.23	1 day - 155 days	4,254,013	0.07
Total pooled investments			**54,066,534** [4]	
Other primary government investments				
U.S. Treasuries and agencies			2,118,611	2.42
Commercial paper			273,325	0.69
Guaranteed investment contracts			207,850	8.72
Corporate debt securities			837,379	2.23
Repurchase agreements			21,887 [5]	0.00
Other			1,097,011	3.55
Total other primary government investments			**4,556,063**	
Funds outside primary government included in pooled investments				
Less: investment trust funds			21,193,406	
Less: other trust and agency funds			2,037,587	
Less: discretely presented component units			1,649,993	
Total primary government investments			**$ 33,741,611**	

[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 $287 million of internal loans to state funds.

[5] These repurchase agreements of the California State University mature in one day.

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, 2013
(amounts in thousands)

	Fair Value at Year End	Percent of Total Pooled Investments
Pooled investments		
Mortgage-backed		
Federal National Mortgage Association Collateralized Mortgage Obligations	$ 208,754	0.39 %

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, 2013
(amounts in thousands)

Credit Rating as of Year End			
Short-term	**Long-term**		**Fair Value**
Pooled investments [1]			
A-1+/P-1/F-1+	AAA/Aaa/AAA	$	9,347,697
A-1/P-1/F-1	AA/Aa/AA		7,798,080
A-2/P-2/F-2	A/A/A		300,000
Not rated			208,754
Not applicable			36,412,003
Total pooled investments		**$**	**54,066,534** [2]
Other primary government investments			
A-1+/P-1/F-1+	AAA/Aaa/AAA	$	1,114,284
A-1/P-1/F-1	AA/Aa/AA		1,267,919
A-2/P-2/F-2	A/A/A		1,104,617
A-3/P-3/F-3	BBB/Baa/BBB		—
B/NP/B	BB/Ba/BB		—
Not rated			525,009
Not applicable			544,234
Total other primary government investments		**$**	**4,556,063**

[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, and $287 million in loans to state funds 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, 2013
(amounts in thousands)

Issuer	Investment Type	Reported Amount	Percent of Total Pooled/Agency Investments
California State University			
Federal National Mortgage Association	U.S. agency securities	$ 218,223	8.66 %
Federal Home Loan Mortgage Corporation	U.S. agency securities	199,935	7.93
Federal Home Loans Bank Office of Finance	U.S. agency securities	192,634	7.65
Federal Farm Credit Banks Consolidated Systemwide Bonds	U.S. agency securities	159,879	6.35
California State Lottery			
State of California	Municipal securities	$ 205,304	21.34 %
Commonwealth of Massachusetts	Municipal securities	66,312	6.89
Golden State Tobacco Securitization Corporation			
Federal Home Loan Mortgage Corporation	U.S. agency securities	$ 127,004	25.42 %
Standard Chartered Bank	Commercial paper	125,002	25.02
Caisse Des Depots ET	Commercial paper	124,007	24.82
Department of Water Resources Electric Power Fund			
Federal Home Loan Mortgage Corporation	U.S. agency securities	$ 100,000	33.33 %
Assured Guaranty Municipal Corporation	Guaranteed investment contracts	100,000	33.33
Royal Bank of Canada	Guaranteed investment contracts	100,000	33.33
State Water Resources Development System			
Federal National Mortgage Association	U.S. agency securities	$ 74,001	100.00 %

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, 2013, one guaranteed investment contract of the Electric Power Fund in the amount of $100 million was 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 fair value or cost, or amortized cost that approximates fair 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 estimated by third-party advisors or operating partners based upon general market and property specific assumptions that are reviewed and approved by CalSTRS management. Short-term investments are reported at fair value or at cost or amortized cost, which approximates fair value. Fair value for commingled funds is based on information provided by the applicable general partner. Private equity partnerships are valued using their respective Net Asset Value (NAV), calculated in accordance with the general partners' fair valuation policy as of the measurement date, 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 CalPERS, 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. For CalSTRS, collateral, in the form of cash or other securities, is required at 102% and 105% of the fair value of domestic securities and international equity securities loaned, respectively. For non-U.S. debt securities loaned, CalSTRS requires 102% of the fair value of the loaned securities. 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 by CalPERS can be recalled on demand by CalPERS, and loans of securities may be terminated by CalPERS or the borrower.

For CalPERS, the cash collateral at June 30, 2013, had an aggregate weighted average maturity (to final maturity) of 400 days and duration of 10 days. State Street Bank & Trust and eSecLending, LLC had weighted average maturity (to final maturity) of 33 and 205 days, respectively.

For CalSTRS, collateral received on each security loan was placed in investments that, at June 30, 2013, had a 28-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 the agents 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, 2013
(amounts in thousands)

	Fair Value
Investment Type	
Equity securities	$ 230,250,748
Debt securities*	95,052,257
Mutual funds	292,393
Real estate	51,362,744
Inflation assets	10,338,702
Insurance contracts	698,174
Private equity	54,612,006
Securities lending collateral	40,497,424
Other	1,025,544
Total investments	**$ 484,129,992**

* Debt securities include short-term investments not included in cash and pooled investments.

This page intentionally left blank.

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. 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 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.

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, 2013
(amounts in thousands)

	Fair Value at Year End	Effective Duration (in years) [1]
California Public Employees' Retirement Fund [2]		
U.S. Treasuries and agencies	$ 24,270,732	9.13
Mortgages	11,788,729	4.75
Corporate	10,816,633	9.73
Asset-backed	6,973,386	8.48
Commercial paper	1,250,974	0.02
Municipal	15,622	8.58
International	6,240,593	9.94
Swaps	(43,972)	1.12
Private placement	2,917	2.61
No effective duration	7,516,464	N/A
Total	**$ 68,832,078**	

[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, 2013
(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	$ 8,058,069	4.82
Credit obligations	6,418,989	6.39
Corporate high yield	1,893,429	3.95
Leveraged loans	396,632	0.33
Debt core plus	2,915,137	5.19
Special situations	144,892	0.07
Commercial mortgage-backed securities	581,189	3.10
Mortgage-backed securities	7,371,226	4.58
Total	**$ 27,779,563**	

	0-30 days	31-90 days
Short-term fixed-income investments		
Money market securities	$ 1,159,202	$ 574,005
Credit obligations	199,967	300,187
U.S. Government and agency obligations	250,423	79,995
Securitized obligations	157,737	45,707
Total	**$ 1,767,329**	**$ 999,894**

	0-1 day	2-6 days
Securities lending collateral		
Money markets securities	$ 59,782	$ 3,560,213
Credit obligations	—	175,005
U.S. Government and agency obligations	—	676,250
Securitized obligations	—	—
Total	**$ 59,782**	**$ 4,411,468**

[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
$ 25,005	$ 97,399	$ —	$ —	$ 1,855,611
24,970	5,135	33,603	—	563,862
85,706	70,077	547,492	257,098	1,290,791
—	10,867	14,986	—	229,297
$ 135,681	**$ 183,478**	**$ 596,081**	**$ 257,098**	**$ 3,939,561**

7-29 days	30-59 days	60-89 days	90+ days	Fair Value at Year End
$ 4,176,367	$ 2,494,463	$ 1,301,237	$ 520,029	$ 12,112,091
1,574,204	885,496	804,483	76,705	3,515,893
30,000	—	—	360,815	1,067,065
4,967,932	243,457	194,713	195,409	5,601,511
$ 10,748,503	**$ 3,623,416**	**$ 2,300,433**	**$ 1,152,958**	**$ 22,296,560**

2. Credit Risk

The CalPERS investment policies require that 89% 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. For CalSTRS, the ratings used to determine the quality of the individual securities are the ratings with the highest degree of risk. Furthermore, the total position of the outstanding debt of any one private or commercial 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 for CalSTRS 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, 2013
(amounts in thousands)

Credit Rating as of Year End		
Short-term	**Long-term**	**Fair Value**
A-1+/P-1/F-1+	AAA/Aaa/AAA	$ 14,017,812
A-1/P-1/F-1	AA/Aa/AA	20,642,907
A-2/P-2/F-2	A/A/A	7,766,254
A-3/P-3/F-3	BBB/Baa/BBB	11,148,720
B/NP/B	BB/Ba/BB	2,003,767
B/NP/B	B/B/B	1,803,704
C/NP/C	CCC/Caa/CCC	797,422
C/NP/C	CC/Ca/CC	51,975
C/NP/C	C/C/C	7,233
D/NP/D	D/D/D	27,432
Withdrawn		161,777
Not rated		44,896,586
Not applicable		34,282,152
Total fixed-income securities		**$ 137,607,741**

3. Concentration of Credit Risk

The Scholarshare Program Trust Fund held $698 million in insurance contracts of TIAA-CREF Life Insurance Company; this amount represented 14% of the fund's total investments as of June 30, 2013.

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, 2013, were not exposed to custodial risk. As of June 30, 2013, all of CalSTRS' non-cash investments, other than Pension2 investments, are held in CalSTRS' and/or its nominee's name and 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, 2013, CalPERS and CalSTRS held $78.4 billion and $30.4 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 its total exposure to international currencies. CalSTRS enters into currency forwards and contracts to protect the value of its non-dollar public and private equity assets against a strengthening U.S. dollar, while recognizing opportunities for additional return (alpha) generation 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 (i.e., private equity and real estate) 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, 2013

(amounts in thousands of U.S. dollars at fair value)

Currency	Cash	Equity	Alternative	Fixed Income
Argentine Peso	$ —	$ —	$ —	$ —
Australian Dollar	29,694	4,890,535	—	175,066
Bermuda Dollar	—	3,292	—	—
Brazilian Real	5,752	1,697,051	—	79,649
British Pound Sterling	85,073	13,435,847	1,031	1,515,787
Canadian Dollar	44,805	5,958,847	185,759	234,298
Cayman Islands Dollar	—	5,084	—	—
Chilean Peso	245	249,108	—	987
Chinese Yuan	—	3,643	—	—
Colombian Peso	20	64,181	—	—
Czech Koruna	189	68,592	—	9,498
Danish Krone	1,251	895,733	—	10,544
Egyptian Pound	11,773	46,706	—	—
Euro	328,321	24,410,720	3,351,690	2,597,692
Guatemalan Quetzal	—	—	—	—
Hong Kong Dollar	27,144	4,391,995	—	—
Hungarian Forint	353	129,148	—	—
Indian Rupee	7,029	1,131,475	—	68
Indonesian Rupiah	1,459	580,827	—	—
Israeli Shekel	1,474	307,458	—	—
Japanese Yen	159,730	16,724,947	84,710	909,686
Kazakhstan Tenge	—	—	—	—
Korean Won	—	5,035	—	—
Malaysian Ringgit	876	469,335	—	—
Mexican Peso	5,029	680,019	—	165,770
Moroccan Dirham	18	4,060	—	—
New Romanian Leu	—	—	—	—
New Russian Ruble	—	3,480	—	—
New Taiwan Dollar	2,002	1,873,153	—	—
New Turkish Lira	114	214,762	—	—
New Zealand Dollar	500	119,667	—	61,343
Norwegian Krone	4,028	687,890	—	33,929
Pakistan Rupee	172	62,463	—	—
Peruvian Nouveau Sol	49	6,310	—	—
Philippine Peso	303	217,689	—	—
Polish Zloty	156	226,354	—	50,175
Singapore Dollar	2,878	1,159,550	—	5,560
South African Rand	2,242	1,466,853	—	5,719
South Korean Won	3,550	2,641,084	—	—
Sri Lanka Rupee	3	—	—	—
Swedish Krona	3,315	1,977,295	—	52,197
Swiss Franc	1,429	5,213,058	—	499
Thailand Baht	4,862	713,374	—	—
Tunisian Dinar	—	—	—	—
Turkish Lira	1,369	452,638	—	—
UAE Dirham	740	55,294	—	—
U.S. Dollar	—	737,552	—	—
Total investments subject to foreign currency risk	**$ 737,947**	**$ 93,982,104**	**$ 3,623,190**	**$ 5,908,467**

Real Estate	Spot Contracts	Forward Contracts	Total
$ —	$ —	$ 4	$ 4
209,224	—	53,970	5,358,489
—	—	—	3,292
1,145,374	(5)	532	2,928,353
274,143	431	27,077	15,339,389
597,809	13	34,061	7,055,592
—	—	—	5,084
—	—	(232)	250,108
679,066	—	486	683,195
—	(20)	55	64,236
—	—	733	79,012
—	—	(3,183)	904,345
—	—	(2)	58,477
738,749	601	32,546	31,460,319
72,029	—	—	72,029
415,541	2	(115)	4,834,567
—	—	75	129,576
383,684	(99)	434	1,522,591
—	(6)	916	583,196
—	—	(473)	308,459
279,406	1,020	(18,867)	18,140,632
—	—	1	1
—	—	—	5,035
22,221	6	448	492,886
179,333	7	(1,790)	1,028,368
—	—	(229)	3,849
—	—	(2)	(2)
225,238	7	3	228,728
—	—	245	1,875,400
—	—	—	214,876
—	—	(749)	180,761
2,530	—	4,550	732,927
—	—	—	62,635
—	6	21	6,386
—	—	(640)	217,352
—	—	134	276,819
8,888	(9)	4,127	1,180,994
—	17	661	1,475,492
—	30	(172)	2,644,492
123,069	—	—	123,072
—	—	11,822	2,044,629
—	(6)	(4,166)	5,210,814
—	(31)	14	718,219
—	—	32	32
—	(12)	(106)	453,889
—	—	—	56,034
—	—	—	737,552
$ 5,356,304	**$ 1,952**	**$ 142,221**	**$ 109,752,185**

C. Discretely Presented Component Units

The discretely presented component units consist of the University of California (University) and its foundations and the California Housing Finance Agency (CalHFA), and various funds that constitute 7% 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 CalHFA, and other component units is invested in the State Treasurer's pooled investment program.

The investments of the University, 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. Deposits with the State of California are valued at contract value, which the University believes approximates fair value. 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' investments that are invested with the University and managed by the University's Chief Investment Officer 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, 2013, 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, 2013, the securities in these pools had a weighted average maturity of 44 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, 2013
(amounts in thousands)

Investment Type	Fair Value
Equity securities	$ 3,421,693
Debt securities*	14,268,479
Investment contracts	105,614
Mutual funds	7,662,271
Real estate	725,786
Money market securities	1,389,147
Private equity	1,149,616
Mortgage loans	161,308
Securities lending collateral	1,468,865
Invested for others	(2,430,055)
Other	2,435,572
Total investments	**$ 30,358,296**

* 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%.

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, 2013
(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	$ 492,681	0.80	$ 320,825	1.60
U.S. Treasury strips	88,985	9.50	161	—
U.S. Treasury inflation-protected securities	151,225	7.00	—	—
U.S. government-backed securities	—	—	1,361	3.20
U.S. government-backed asset-backed securities	—	—	582	7.10
Corporate bonds	6,276,076	3.70	52,915	4.50
Commercial paper	2,205,533	—	—	—
U.S. agencies	1,383,842	2.90	3,996	5.00
U.S. agencies asset-backed securities	283,169	4.50	76,387	4.20
Corporate asset-backed securities	107,456	2.10	38,176	—
Supranational/foreign	1,700,003	4.10	1,691	0.80
Corporate (foreign currency denominated)	39,199	2.90	—	—
U.S. bond funds	150,696	4.90	157,748	4.40
Non-U.S. bond funds	19,564	4.50	56,108	5.20
Money market funds	680,674	—	628,690	2.60
Mortgage loans	161,054	—	254	—
Forward contracts on a to-be-announced basis	(10,604)	1.80	(170)	—
U.S. Treasury and agency securities	—	—	—	—
Other	14,101	16.80	13,305	4.50
Total	**$ 13,743,654**		**$ 1,352,029**	

[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.

California Housing Finance Agency	
Fair Value at Year End	Effective Duration [1]
$ —	—
—	—
—	—
—	—
—	—
—	—
—	—
—	—
—	—
—	—
—	—
—	—
—	—
—	—
—	—
—	—
—	—
489,991	16.00
—	—
$ 489,991	

Table 12 identifies the debt securities that are highly sensitive to interest rate fluctuations 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, 2013
(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.	$ 334,374	4.10
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.	70,482	4.00
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.	23,663	1.20
Variable-Rate Securities These securities are investments with terms that provide for the adjustment of their interest rates on set dates and are expected to have fair values that will be relatively unaffected by interest rate changes. Variable-rate securities may have limits on how high or low the interest rate may change. These constraints may affect the market value of the security.	7,196	2.30
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.	1,915,506	4.60
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.	349	4.70

University of California Foundations	
Fair Value at Year End	**Effective Duration**
$ 56,375	1.30
27,905	0.50
9,168	1.20
—	—
551	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 U.S. Aggregate Bond Index, comprising approximately 27.5% high grade corporate bonds and 31.4% mortgage/asset-backed securities, all of which carry some degree of credit risk. The remaining 41.1% 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.

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, 2013
(amounts in thousands)

Credit Rating as of Year End		
Short-term	**Long-term**	**Fair Value**
A-1+	AAA	$ 282,419
A-1/P-1	AA2/AA	5,127,509
A-2	A2/A	3,791,788
A-3	BAA2/BBB	2,381,305
B	BA2/BB	315,441
B	B2/B	313,040
C	CC or below	84,197
Not rated		3,417,007
Total fixed-income securities		**$ 15,712,706**

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. For high-yield and emerging market debt, the corresponding limit is 5%. 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 and its Foundations – Foreign Currency Risk
June 30, 2013
(amounts in thousands of U.S. dollars at fair value)

Currency	Equity	Real Estate	Investment Derivatives	Fixed-Income	Total
Australian Dollar	$ 90,721	$ 1,021	$ 1,246	$ —	$ 92,988
Brazilian Real	—	—	—	4,718	4,718
British Pound Sterling	285,600	659	1,573	—	287,832
Canadian Dollar	109,096	—	582	—	109,678
Danish Krone	16,091	—	—	—	16,091
Euro	420,548	996	537	2,275	424,356
Hong Kong Dollar	59,945	2,457	—	—	62,402
Indonesian Rupiah	—	—	—	3,209	3,209
Japanese Yen	302,726	1,892	3,146	—	307,764
Malaysian Ringgit	—	—	—	3,573	3,573
Mexican Peso	—	—	—	4,638	4,638
New Russian Ruble	—	—	—	3,703	3,703
Norwegian Krone	13,656	—	—	—	13,656
Polish Zloty	—	—	—	3,450	3,450
Singapore Dollar	27,671	478	—	—	28,149
South African Rand	—	—	—	3,980	3,980
Swedish Krona	41,548	—	—	—	41,548
Swiss Franc	137,919	—	—	—	137,919
Turkish Lira	—	—	—	3,911	3,911
Other	52,309	3,328	460	5,742	61,839
Commingled currencies	1,390,125	—	—	65,225	1,455,350
Total investments subject to foreign currency risk	**$ 2,947,955**	**$ 10,831**	**$ 7,544**	**$ 104,424**	**$ 3,070,754**

This page intentionally left blank.

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, 2013
(amounts in thousands)

	Taxes	Reimbursement of Accrued Interest Expense	Lottery Retailers
Current governmental activities			
General Fund	$ 11,527,389	$ —	$ —
Federal Fund	—	—	—
Transportation Fund	625,823	—	—
Environmental and Natural Resources Fund	—	—	—
Nonmajor governmental funds	338,760	—	—
Internal service funds	—	—	—
Total current governmental activities	**$ 12,491,972**	**$ —**	**$ —**
Amounts not expected to be collected during the subsequent year (unavailable revenue)	**$ 1,704,409**	**$ —**	**$ —**
Current business-type activities			
Water Resources Fund	$ —	$ —	$ —
Public Buildings Construction Fund	—	197,801	—
State Lottery Fund	—	—	362,744
Unemployment Programs Fund	—	—	—
California State University	—	—	—
Nonmajor enterprise funds	—	—	—
Adjustment:			
Account reclassification	—	(197,801)	—
Total current business-type activities	**$ —**	**$ —**	**$ 362,744**
Amounts not expected to be collected during the subsequent year (unavailable revenue)	**$ —**	**$ —**	**$ —**

* This amount includes noncurrent receivables for Service Concession Arrangements.

Unemployment Programs	California State University	Other	Total
$ —	$ —	$ 1,123,106	$ 12,650,495
—	—	950	950
—	—	434,469	1,060,292
—	—	505,457	505,457
—	—	1,958,218	2,296,978
—	—	45,665	45,665
$ —	**$ —**	**$ 4,067,865**	**$ 16,559,837**
$ —	**$ —**	**$ 267,333** *	**$ 1,971,742**
$ —	$ —	$ 92,373	$ 92,373
—	—	—	197,801
—	—	—	362,744
1,275,655	—	—	1,275,655
—	161,990	—	161,990
—	—	46,115	46,115
—	—	(662)	(198,463)
$ 1,275,655	**$ 161,990**	**$ 137,826**	**$ 1,938,215**
$ 30,476	**$ 272,644**	**$ —**	**$ 303,120**

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, 2013
(amounts in thousands)

	Cash and Pooled Investments	Investments	Due From Other Governments	Loans Receivable	Total
Primary government					
Debt service	$ 1,718,509	$ 385,758	$ 20,448	$ 325,930	$ 2,450,645
Construction	2,292,203	11,889	—	—	2,304,092
Operations	228,000	—	—	—	228,000
Other	2,623	8,754	—	—	11,377
Total primary government	**4,241,335**	**406,401**	**20,448**	**325,930**	**4,994,114**
Discretely presented component units					
Debt service	124,877	26,134	—	—	151,011
Total discretely presented component units	**124,877**	**26,134**	**—**	**—**	**151,011**
Total restricted assets	**$ 4,366,212**	**$ 432,535**	**$ 20,448**	**$ 325,930**	**$ 5,145,125**

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 California State University Trust 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
2014	$ 627,900	$ 220,265	$ 29,402	$ 63,776	$ 941,343
2015	626,417	212,174	29,369	62,177	930,137
2016	622,440	178,630	26,753	53,892	881,715
2017	620,872	171,731	27,040	39,986	859,629
2018	590,803	188,278	27,122	32,698	838,901
2019-2023	2,339,505	857,584	141,276	77,765	3,416,130
2024-2028	1,854,657	600,460	148,792	63,379	2,667,288
2029-2033	1,186,734	416,440	131,503	39,021	1,773,698
2034-2038	270,758	59,510	42,746	—	373,014
2039-2043	—	—	23,190	—	23,190
2044-2046	—	—	8,986	—	8,986
Total minimum lease payments	**8,740,086**	**2,905,072**	**636,179**	**432,694**	**12,714,031**
Less: unearned income	3,334,459	1,029,616	253,826	102,721	4,720,622
Net investment in direct financing leases	**$ 5,405,627**	**$ 1,875,456**	**$ 382,353**	**$ 329,973**	**$ 7,993,409**

NOTE 7: CAPITAL ASSETS

Table 18 summarizes the capital activity for the primary government, which includes $8.0 billion in capital assets related to capital leases.

Table 18

Schedule of Changes in Capital Assets – Primary Government
June 30, 2013
(amounts in thousands)

	Beginning Balance (Restated)	Additions	Deductions	Ending Balance
Governmental activities				
Capital assets not being depreciated/amortized				
Land	$ 17,112,444 *	$ 525,776	$ 36,165	$ 17,602,055
State highway infrastructure	63,779,198 *	1,011,463	171,224	64,619,437
Collections	22,528	119	2	22,645
Construction in progress	8,625,913 *	2,760,311	1,480,894	9,905,330
Intangible assets	1,022,313 *	336,133	274,118	1,084,328
Total capital assets not being depreciated/amortized	**90,562,396**	**4,633,802**	**1,962,403**	**93,233,795**
Capital assets being depreciated/amortized				
Buildings and improvements	19,065,903 *	1,172,929	15,683	20,223,149
Infrastructure	718,155	23,209	2,872	738,492
Equipment and other assets	4,505,430 *	283,245	136,667	4,652,008
Intangible assets	678,786 *	382,689	75,291	986,184
Total capital assets being depreciated/amortized	**24,968,274**	**1,862,072**	**230,513**	**26,599,833**
Less accumulated depreciation/amortization for:				
Buildings and improvements	6,398,655 *	153,741	12,755	6,539,641
Infrastructure	293,242	34,811	2,717	325,336
Equipment and other assets	3,698,714 *	333,512	129,126	3,903,100
Intangible assets	383,381 *	60,184	46,080	397,485
Total accumulated depreciation/amortization	**10,773,992**	**582,248**	**190,678**	**11,165,562**
Total capital assets being depreciated/amortized, net	**14,194,282**	**1,279,824**	**39,835**	**15,434,271**
Governmental activities, capital assets, net	**$ 104,756,678**	**$ 5,913,626**	**$ 2,002,238**	**$ 108,668,066**
Business-type activities				
Capital assets not being depreciated/amortized				
Land	$ 216,206	$ 714	$ 32	$ 216,888
Collections	2,895	3,183	27	6,051
Construction in progress	1,766,234 *	1,050,892	229,995	2,587,131
Intangible assets	311,527 *	93,125	673	403,979
Total capital assets not being depreciated/amortized	**2,296,862**	**1,147,914**	**230,727**	**3,214,049**
Capital assets being depreciated/amortized				
Buildings and improvements	10,176,625	282,554	7,248	10,451,931
Infrastructure	205,836	30,315	2	236,149
Equipment and other assets	558,023 *	54,356	36,048	576,331
Intangible assets	158,518 *	17,008	1,481	174,045
Total capital assets being depreciated/amortized	**11,099,002**	**384,233**	**44,779**	**11,438,456**
Less accumulated depreciation/amortization for:				
Buildings and improvements	3,908,907	261,734	5,878	4,164,763
Infrastructure	46,490	14,958	2	61,446
Equipment and other assets	331,177	50,805	34,167	347,815
Intangible assets	104,500 *	15,823	1,288	119,035
Total accumulated depreciation/amortization	**4,391,074**	**343,320**	**41,335**	**4,693,059**
Total capital assets being depreciated/amortized, net	**6,707,928**	**40,913**	**3,444**	**6,745,397**
Business-type activities, capital assets, net	**$ 9,004,790**	**$ 1,188,827**	**$ 234,171**	**$ 9,959,446**

* Restated

Table 19 summarizes the depreciation expense charged to the activities of the primary government.

Table 19

Schedule of Depreciation Expense – Primary Government
June 30, 2013
(amounts in thousands)

		Amount
Governmental activities		
General government	$	69,301
Education		127,941
Health and human services		42,647
Resources		31,985
State and consumer services		37,316
Business and transportation		101,286
Correctional programs		122,610
Internal service funds (charged to the activities that utilize the fund)		49,162
Total governmental activities		**582,248**
Business-type activities		**343,320**
Total primary government	**$**	**925,568**

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, 2013
(amounts in thousands)

	Beginning Balance		Additions	Deductions	Ending Balance
Capital assets not being depreciated/amortized					
Land	$ 902,283	*	$ 77,648	$ 9,225	$ 970,706
Collections	352,169		10,296	92	362,373
Construction in progress	2,805,485	*	131,798	19,741	2,917,542
Intangible assets	5,141	*	—	10	5,131
Total capital assets not being depreciated/amortized	**4,065,078**		**219,742**	**29,068**	**4,255,752**
Capital assets being depreciated/amortized					
Buildings and improvements	29,445,447	*	1,625,825	75,144	30,996,128
Infrastructure	656,560		10,244	5	666,799
Equipment and other depreciable assets	9,432,630	*	618,627	370,763	9,680,494
Intangible assets	490,308	*	207,741	23,507	674,542
Total capital assets being depreciated/amortized	**40,024,945**		**2,462,437**	**469,419**	**42,017,963**
Less accumulated depreciation/amortization for:					
Buildings and improvements	10,626,127	*	980,371	24,500	11,581,998
Infrastructure	283,069		22,839	—	305,908
Equipment and other depreciable assets	6,491,347	*	561,288	348,205	6,704,430
Intangible assets	259,251	*	60,888	20,158	299,981
Total accumulated depreciation/amortization	**17,659,794**		**1,625,386**	**392,863**	**18,892,317**
Total capital assets being depreciated/amortized, net	**22,365,151**		**837,051**	**76,556**	**23,125,646**
Capital assets, net	**$ 26,430,229**		**$ 1,056,793**	**$ 105,624**	**$ 27,381,398**

* 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 Position.

Table 21

Schedule of Accounts Payable
June 30, 2013
(amounts in thousands)

	Education	Health and Human Services
Governmental activities		
General Fund	$ 256,569	$ 790,098
Federal Fund	173,190	336,586
Transportation Fund	9,578	17
Environmental and Natural Resources Fund	2,994	3,339
Nonmajor governmental funds	13,155	546,717
Internal service funds	—	—
Adjustment:		
Fiduciary funds	8,490,297	9,649,692
Total governmental activities	**$ 8,945,783**	**$ 11,326,449**
Business-type activities		
Electric Power Fund	$ —	$ —
Water Resources Fund	—	—
Public Buildings Construction Fund	—	—
State Lottery Fund	—	—
Unemployment Programs Fund	—	—
California State University	169,394	—
Nonmajor enterprise funds	1,000	109
Adjustment:		
Fiduciary funds	—	—
Total business-type activities	**$ 170,394**	**$ 109**

Resources	Business and Transportation	General Government and Others	Total
$ 109,922	$ 1	$ 501,054	$ 1,657,644
63,558	548,733	107,040	1,229,107
4,516	388,510	14,291	416,912
316,755	630	4,316	328,034
10,547	74,151	341,132	985,702
17,329	—	247,403	264,732
—	99,248	513,750	18,752,987
$ 522,627	**$ 1,111,273**	**$ 1,728,986**	**$ 23,635,118**
$ 9,000	$ —	$ —	$ 9,000
106,490	—	—	106,490
—	—	200,200	200,200
—	—	60,505	60,505
—	—	7,200	7,200
—	—	—	169,394
8	—	3,003	4,120
—	—	381	381
$ 115,498	**$ —**	**$ 271,289**	**$ 557,290**

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, because General Fund revenues and disbursements do not occur 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 2012-13 fiscal year, the State issued $10.0 billion in RANs on August 16, 2012. The RANs were repaid during May and June of 2013.

NOTE 10: LONG-TERM OBLIGATIONS

As of June 30, 2013, the primary government had long-term obligations totaling $170.8 billion. Of that amount, $6.4 billion is due within one year. The largest changes in long-term obligations for governmental activities are a decrease of $3.1 billion in loans payable and an increase of $3.1 billion in net other postemployment benefits obligations. Other notable increases occurred in general obligation bonds payable and certificates of participation and commercial paper payable.

As of June 30, 2013, the pollution remediation obligations decreased by $34 million, to $1.0 billion. 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, 2013, the State estimates that remediation costs at Stringfellow will total $378 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 final terms of the settlement 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 the claim's parameters and guidelines are 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 $3.3 billion for net pension obligations, $86 million owed for lawsuits, the University of California unfunded pension liability of $28 million, and the California Technology Agency notes payable of $27 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 changes in business-type long-term obligations are a decrease of $384 million for loans payable to the U.S. Department of Labor to cover shortfalls in the Unemployment Programs Fund and a decrease of $232 million in general obligation bonds payable.

This page intentionally left blank.

Table 22 summarizes the changes in long-term obligations during the year ended June 30, 2013.

Table 22

Schedule of Changes in Long-term Obligations
(amounts in thousands)

	Balance July 1, 2012		Additions
Governmental activities			
Loans payable	$ 3,131,365		$ —
Compensated absences payable	3,820,093	*	1,771,537
Certificates of participation and commercial paper	43,228	*	643,865
Accreted interest	3,050		184
Certificates of participation and commercial paper payable	46,278	*	644,049
Capital lease obligations	4,936,200	*	710,440
General obligation bonds	79,447,815		7,417,170
Premiums/discounts/other	1,929,179	*	903,130
General obligation bonds payable	81,376,994	*	8,320,300
Revenue bonds	7,558,970		375,105
Accreted interest	334,176		49,686
Premiums/discounts/other	108,800	*	56,019
Revenue bonds payable	8,001,946	*	480,810
Net other postemployment benefits obligation	12,472,425	*	4,768,897
Pollution remediation obligations	1,043,047	*	35,028
Proposition 98 funding guarantee	2,247,676		134,862
Mandated costs	6,414,082		416,988
Workers' compensation	3,202,772		754,641
Other long-term obligations	3,368,459		328,503
Total governmental activities	**$ 130,061,337**		**$ 18,366,055**
Business-type activities			
Loans payable	$ 8,968,936		$ —
Lottery prizes and annuities	1,306,053		2,844,588
Compensated absences payable	297,336		137,887
Certificates of participation and commercial paper	67,325		149,366
Capital lease obligations	817,687		92,184
General obligation bonds	1,119,935		—
Premiums/discounts/other	(1,301)		74
General obligation bonds payable	1,118,634		74
Revenue bonds	24,482,048		3,022,400
Premiums/discounts/other	912,690		343,367
Revenue bonds payable	25,394,738		3,365,767
Net other postemployment benefits obligation	410,782		157,165
Other long-term obligations	526,167	*	46,563
Total business-type activities	**$ 38,907,658**		**$ 6,793,594**

* Restated

Deductions	Balance June 30, 2013	Due Within One Year	Noncurrent Liabilities
$ 3,131,365	$ —	$ —	$ —
1,456,529	4,135,101	19,500	4,115,601
148,500	538,593	8,094	530,499
3,234	—	—	—
151,734	538,593	8,094	530,499
327,153	5,319,487	399,491	4,919,996
7,176,540	79,688,445	2,900,795	76,787,650
174,543	2,657,766	139,709	2,518,057
7,351,083	82,346,211	3,040,504	79,305,707
726,158	7,207,917	158,398	7,049,519
—	383,862	—	383,862
21,545	143,274	(4,267)	147,541
747,703	7,735,053	154,131	7,580,922
1,682,090	15,559,232	—	15,559,232
68,859	1,009,216	35,259	973,957
468,474	1,914,064	—	1,914,064
80,221	6,750,849	54,259	6,696,590
449,937	3,507,476	413,644	3,093,832
277,990	3,418,972	57,243	3,361,729
$ 16,193,138	**$ 132,234,254**	**$ 4,182,125**	**$ 128,052,129**
$ 383,618	$ 8,585,318	$ —	$ 8,585,318
2,951,737	1,198,904	491,123	707,781
121,090	314,133	124,925	189,208
139,131	77,560	340	77,220
—	909,871	62,519	847,352
231,655	888,280	61,185	827,095
—	(1,227)	—	(1,227)
231,655	887,053	61,185	825,868
3,041,490	24,462,958	1,338,210	23,124,748
160,886	1,095,171	140,893	954,278
3,202,376	25,558,129	1,479,103	24,079,026
57,718	510,229	—	510,229
88,081	484,649	24,842	459,807
$ 7,175,406	**$ 38,525,846**	**$ 2,244,037**	**$ 36,281,809**

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
2014	$ 8,140	$ 1,503	$ 9,643
2015	8,565	1,075	9,640
2016	11,915	625	12,540
Total	**$ 28,620**	**$ 3,203**	**$ 31,823**

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" agreements for the general obligation commercial paper program, effective December 21, 2011, authorize the issuance of notes in an aggregate principal amount not to exceed $1.6 billion. As of June 30, 2013, the general obligation commercial paper program had $510 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, 2013, the enterprise fund commercial paper program had $51 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, 2013, $27 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 may be issued by the University to provide for interim/permanent financing for capital projects and interim financing for equipment and working capital. Commercial paper is collateralized 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, 2013, outstanding tax-exempt and taxable commercial paper totaled $55 million and $1.3 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. Outstanding borrowings under these uncollateralized financing agreements for the period ending June 30, 2013, total $262 million for general corporate purposes and $15 million for interim financing.

NOTE 13: LEASES

The aggregate amount of lease commitments for facilities and equipment of the primary government in effect as of June 30, 2013, was approximately $10.7 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 $6.2 billion. 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, 2013, amounted to approximately $1.0 billion.

Included in the capital lease commitments are lease-purchase agreements, amounting to a present value of net minimum lease payments of $5.6 billion that certain state agencies have entered into with the State Public Works Board, an enterprise fund agency. This amount represents 90.6% 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 $309 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	Total
2014	$ 279,348	$ 728,216	$ 1,007,564
2015	188,056	714,784	902,840
2016	125,375	698,504	823,879
2017	80,589	682,721	763,310
2018	40,063	657,030	697,093
2019-2023	79,622	2,595,057	2,674,679
2024-2028	14,924	2,038,819	2,053,743
2029-2033	11,578	1,362,162	1,373,740
2034-2038	3,063	362,421	365,484
2039-2043	1,567	9,715	11,282
2044-2048	498	—	498
2049-2053	352	—	352
2054-2058	114	—	114
2059-2063	52	—	52
2064-2068	32	—	32
2069-2073	33	—	33
2074-2078	32	—	32
2079-2083	33	—	33
2084-2088	32	—	32
2089-2093	33	—	33
2094-2098	32	—	32
2099-2103	3	—	3
Total minimum lease payments	**$ 825,431**	**9,849,429**	**$ 10,674,860**
Less: amount representing interest		3,620,071	
Present value of net minimum lease payments		**$ 6,229,358**	

The aggregate amount of the major discretely presented component units' lease commitments for land, facilities, and equipment in effect as of June 30, 2013, was approximately $4.5 billion. Table 25 presents the future minimum lease commitments for the University of California. Operating lease expenditures for the year ended June 30, 2013, amounted to approximately $168 million for major discretely presented component units.

Table 25

Schedule of Future Minimum Lease Commitments – Major Discretely Presented Component Units
(amounts in thousands)

Year Ending June 30	University of California Capital	University of California Operating	Total
2014	$ 313,074	$ 120,281	$ 433,355
2015	267,337	97,810	365,147
2016	239,951	80,610	320,561
2017	235,463	65,363	300,826
2018	228,809	54,160	282,969
2019-2023	1,072,137	131,171	1,203,308
2024-2028	785,675	7,223	792,898
2029-2033	596,047	4,932	600,979
2034-2038	129,122	4,898	134,020
2039-2043	30,977	1,651	32,628
2044-2048	3,968	—	3,968
Total minimum lease payments	**3,902,560**	**$ 568,099**	**$ 4,470,659**
Less: amount representing interest	1,316,171		
Present value of net minimum lease payments	**$ 2,586,389**		

NOTE 14: COMMITMENTS

As of June 30, 2013, the primary government had commitments of $7.0 billion for certain highway construction projects. The primary government also had commitments of $773 million for various education programs, $489 million for terrorism prevention and disaster preparedness response projects, $329 million for services provided under various public health programs, $291 million for services under the workforce development program, $202 million for community service programs, $126 million for services provided under the welfare program, $40 million for services provided under the child support program, and $33 million for services provided under the rehabilitation program.

The primary government had other commitments, totaling $7.6 billion that are not included as a liability on the Balance Sheet or the Statement of Net Position. The $7.6 billion in commitments includes grant agreements totaling approximately $5.5 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 $7.6 billion in commitments includes $363 million in undisbursed loan commitments for various programs aimed at providing housing and emergency shelter to persons in need. In addition, the $7.6 billion in commitments includes $113 million in long-term contracts to purchase power. These contracts qualify for the Normal Purchase Normal Sale (NPNS) exception under GASB Statement No. 53 and, therefore, are not included on the Statement of Net Position of the Electric Power Fund nor disclosed in Note 17.

The $7.6 billion in commitments also includes contracts of $861 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 Position of the Water Resources Fund. Included in this amount are certain power purchase, sale, and exchange contracts. These contracts had a positive fair value of $72,000 as of June 30, 2013. The primary government had commitments of $214 million for California State University (CSU) construction projects. CSU participates in forward-purchase contracts of natural gas and electricity. As of June 30, 2013, CSU's obligation under these special purchase arrangements requires it to purchase at fixed prices an estimated total of $26 million in electricity through March 2014 and $35 million in natural gas through June 2017. The primary government also had commitments of $5 million to veterans for the purchase of properties under contracts of sale. The California State Lottery Commission had commitments of $533 million, of which $530 million is for gaming and telecommunication systems and services and $3 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, 2013, the primary government encumbered expenditures of $658 million for the General Fund, $3.9 billion for the Transportation Fund, $1.2 billion for the Environmental and Natural Resources Fund, and $708 million for the nonmajor governmental funds. See Note 2A for an explanation of the primary government's policy concerning encumbrances.

As of June 30, 2013, the discretely presented component units had other commitments that are not included as liabilities on the Statement of Net Position. The University of California had authorized construction projects totaling $3.4 billion. The University also made commitments to invest in certain investment partnerships pursuant to provisions in the various partnership agreements. These commitments totaled $700 million as of June 30, 2013. 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 $12.4 billion and commitments to purchase real estate equity of $8.0 billion that remained unfunded and not recorded as liabilities on the Statement of Net Position of the fiduciary 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 vote 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, 2013, the State had $79.7 billion in outstanding general obligation bonds related to governmental activities and $888 million related to business-type activities. In addition, $30.5 billion of long-term general obligation bonds had been authorized but not issued, of which $29.2 billion is related to governmental activities and $1.3 billion is related to business-type activities. The total amount authorized but not issued includes $17.9 billion authorized by the applicable finance committees for issuance in the form of commercial paper notes. Of this amount, $510 million in general obligation indebtedness in the form of commercial paper notes was not yet retired by long-term bonds.

A. Variable-rate General Obligation Bonds

The State issues both fixed and variable-rate general obligation bonds. As of June 30, 2013, the State had $2.7 billion of 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. The State has entered into different credit agreements with various banks for each series of credit enhanced bonds. Under these credit agreements, the credit providers agree to pay all principal and interest payments or the commitment amounts to the bondholders; the State is then required to reimburse the credit providers for the amounts paid. In return, the credit providers are compensated with commitment fees that are calculated as a percentage of the bank commitment amounts. The bondholders have the right to tender the bonds daily if the bonds are in a daily rate mode and weekly if the bonds are in a weekly rate mode. Upon a tender, the remarketing agent will attempt to remarket the bonds to a new investor. If the remarketing of the bonds is unsuccessful, the bonds will enter into a bank bond period and accrue interest at higher rates— which cannot exceed 11% as permitted by law until remarketed or redeemed. If the bonds cannot be remarketed and remain in a bank bond period ranging from 45 days to 180 days, the bonds will be subject to term loan payment in 12 equal quarterly installments under the terms stated in the credit agreements. The term loan period may exceed the expiration dates of the credit agreements. The bonds may be remarketed at any time during the bank bond or term loan period. There were no bank bonds during fiscal year 2012 - 2013.

The letters of credit for the variable-rate bonds issued during the 2002-03 fiscal year have expiration dates of November 21, 2014; December 1, 2014; October 15, 2015; and October 16, 2015. The letters of credit for the variable-rate bonds issued during the 2004-05 fiscal year have expiration dates of April 6, 2015; October 12, 2015; and October 15, 2015. 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. The Series 2012A SIFMA Index floating rate bonds have a mandatory purchase date of May 1, 2015. The Series 2012B SIFMA Index floating rate 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, 2013, the State had $5.2 billion in Economic Recovery Bonds outstanding. Of the $5.2 billion outstanding, bonds totaling $260 million are variable-rate bonds in the daily-rate mode and $500 million are mandatory tender bonds. 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 for the variable-rate bonds, 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. 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 $5.2 billion in outstanding Economic Recovery Bonds, $500 million are mandatory tender bonds and have an interest rate reset date 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% 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.

In May 2012, the State issued $100 million in General Obligation Kindergarten-University Public Education Facilities Refunding Bonds, Series 2012A (SIFMA Index Floating Rate Bonds). The mandatory bonds have an initial SIFMA scheduled mandatory purchase date of May 1, 2015. The bonds will bear interest at a per annum interest rate, determined weekly (not to exceed 11%), and equal to the sum of the SIFMA Index rate in effect and the applicable SIFMA spread of 0.68%. In the event of unsuccessful remarketing of all the outstanding bonds on the initial SIFMA scheduled mandatory purchase date, the bonds will enter into a SIFMA delayed remarketing period and the bonds will accrue interest at a higher rate to be paid by the State until remarketed or redeemed. Starting six months after the SIFMA— scheduled mandatory purchase date, the bonds will be subject to special mandatory redemption in 20 equal quarterly installments.

D. Build America Bonds

As of June 30, 2013, 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. The bonds will mature between 2020 and 2040. 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 American Taxpayer Relief Act of 2012 effective March 1, 2013, reduced the Build America Bonds subsidy by 8.7% for the federal fiscal year ending September 30, 2013. 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 deposited into the state treasury.

E. Debt Service Requirements

Table 26 shows the debt service requirements for all general obligation bonds as of June 30, 2013. The estimated debt service requirements for the $2.7 billion variable-rate general obligation bonds and the $260 million variable-rate Economic Recovery Bonds are calculated using the actual interest rates in effect on June 30, 2013. 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
2014	$ 2,900,795	$ 4,089,281	$ 6,990,076	$ 61,185	$ 38,861	$ 100,046
2015	3,136,045	3,993,769	7,129,814	77,565	35,964	113,529
2016	3,303,620	3,865,978	7,169,598	75,620	32,851	108,471
2017	2,757,990	3,711,780	6,469,770	61,895	30,150	92,045
2018	2,823,120	3,594,810	6,417,930	60,655	27,463	88,118
2019-2023	15,340,120	15,734,172	31,074,292	129,790	109,911	239,701
2024-2028	11,180,185	12,693,358	23,873,543	67,940	91,029	158,969
2029-2033	12,820,465	9,823,751	22,644,216	204,940	58,805	263,745
2034-2038	15,570,625	5,852,792	21,423,417	98,285	22,243	120,528
2039-2043	9,855,480	1,398,049	11,253,529	50,405	3,550	53,955
Total	**$79,688,445**	**$64,757,740**	**$144,446,185**	**$ 888,280**	**$ 450,827**	**$1,339,107**

F. General Obligation Bond Defeasances

1. Current Year

On October 4, 2012, the primary government issued $776 million in general obligation refunding bonds to current and advance refund $867 million in outstanding general obligation bonds maturing in 2013 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 $155 million and resulted in an economic gain of $117 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 2.93% per year over the life of the new bonds.

On November 1, 2012, the primary government issued $539 million in general obligation refunding bonds to current and advance refund $583 million in outstanding general obligation bonds maturing in 2020 to 2032. 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 $165 million and resulted in an economic gain of $119 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 3.01% per year over the life of the new bonds.

On March 27, 2013, the primary government issued $1.1 billion in general obligation refunding bonds to current and advance refund $1.2 billion in outstanding general obligation bonds maturing in 2014 to 2033. 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 $224 million and resulted in an economic gain of $169 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 3.11% per year over the life of the new bonds.

On March 27, 2013, the primary government issued $277 million in general obligation refunding bonds to current refund $277 million in outstanding mandatory tender general obligation bonds maturing in 2039. 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 restructure the debt of the State.

On April 23, 2013, the primary government issued $1.4 billion in general obligation refunding bonds to current and advance refund $1.5 billion in outstanding general obligation bonds maturing in 2013 to 2033. 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 $315 million and resulted in an economic gain of $237 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 2.94% per year over the life of the new bonds.

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, 2013, the outstanding balance of general obligation bonds defeased in prior years was approximately $4.9 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 $226 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 Position.

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 and the 2013 Bonds that refunded a portion 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 monies has never been required. Total principal and interest remaining on all asset-backed bonds is $19.3 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 $932 million, while Tobacco Settlement Revenue and interest earned totaled $555 million. These bonds are included in the governmental activities column of the government-wide Statement of Net Position.

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 Position.

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 buildings 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 remarketed rates or common indices, such as the 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, 2013
(amounts in thousands)

Primary government		
Governmental activities		
Transportation Fund	$	227,886
Nonmajor governmental funds		
Golden State Tobacco Securitization Corporation Fund		7,185,762
Building authorities		321,405
Total governmental activities		**7,735,053**
Business-type activities		
Electric Power Fund		6,951,000
Water Resources Fund		2,594,459
Public Buildings Construction Fund		11,756,473
California State University		3,738,697
Nonmajor enterprise funds		517,500
Total business-type activities		**25,558,129**
Total primary government		**33,293,182**
Discretely presented component units		
University of California		12,801,508
California Housing Finance Agency		4,899,970
Nonmajor component units		382,174
Total discretely presented component units		**18,083,652**
Total	**$**	**51,376,834**

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*
2014	$ 158,398	$ 350,681	$ 1,338,210	$ 1,197,986	$ 654,161	$ 795,433
2015	132,848	342,952	1,405,425	1,135,303	396,103	765,942
2016	70,973	336,423	1,493,415	1,070,249	446,987	743,498
2017	107,213	332,910	1,554,375	1,000,572	423,416	721,169
2018	88,988	327,648	1,611,765	926,167	428,417	698,753
2019-2023	461,328	1,570,793	7,460,488	3,449,345	2,803,720	3,150,819
2024-2028	791,964	1,658,847	4,067,145	2,042,169	2,661,734	2,531,030
2029-2033	775,760	1,348,169	3,393,135	1,030,137	3,028,880	1,886,242
2034-2038	1,425,390	1,603,159	1,815,025	286,963	2,855,257	1,223,788
2039-2043	—	818,939	315,380	34,282	2,287,268	648,567
2044-2048	3,578,917	3,701,239	8,595	391	724,132	339,695
2049-2053	—	—	—	—	91,435	215,351
2054-2112	—	—	—	—	860,000	2,464,948
Total	**$ 7,591,779**	**$ 12,391,760**	**$ 24,462,958**	**$ 12,173,564**	**$ 17,661,510**	**$ 16,185,235**

* Includes interest on variable-rate bonds based on rates in effect on June 30, 2013.

D. Revenue Bond Defeasances

1. Current Year–Governmental Activities

On April 9, 2013, Enhanced Tobacco Settlement Asset-backed Bonds, Series 2013A, were issued to partially refund, on a current basis, a portion of the remaining outstanding bonds of the 2005A Bonds. On April 9, 2013, $375,105,000 principal value in current interest bonds with maturity dates ranging from June 1, 2017 through June 1, 2030 were sold at a $56,019,304 premium to partially refund $419,885,000 in principal value of Series 2005A bonds maturing in June 1, 2013, 2017, 2018, 2019, 2020, 2021, 2029, and 2030. The Golden State Tobacco Securitization Corporation completed the refunding to reduce debt service payments by $44,780,000 in aggregate and to obtain an economic gain (difference between the present value of the old and new debt service payments) of $1,268,860 in aggregate.

2. Current Year–Business-type Activities

In 2012-13, the Department of Water Resources issued $657 million in water system revenue bonds. The bonds proceeds were used to refund $632 million of 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 $93 million over the life of the bonds and will result in an economic gain of $77 million for the refunded bonds. These water system revenue bonds are reported in the Water Resources Fund.

For the year ended June 30, 2013, the State Public Works Board issued $506 million in lease revenue refunding bonds. The bonds proceeds were used to refund $577 million in outstanding lease 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 $95 million over the next 10 years and will result in an economic gain of $75 million for the refunded bonds. These lease revenue bonds are reported in the Public Buildings Construction Fund.

In August 2012, California State University issued $436 million in Systemwide Revenue Bonds refunding bonds to partially defease certain outstanding Systemwide Revenue Bonds. A portion of 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 $80 million over the life of the bonds and will result in an economic gain of $53 million for the refunded bonds.

3. Current Year–Discretely Presented Component Units

In July 2012, Limited Project Revenue Bonds totaling $1.0 billion, including $899 million in tax-exempt and $101 million in taxable bonds, were issued. Proceeds including a bond premium of $153 million were used to finance certain facilities and projects of the University and refund $854 million of outstanding Limited Project Revenue Bonds and outstanding General Revenue Bonds. The bonds mature at various dates through 2042. The tax-exempt bonds have a stated weighted average interest rate of 4.9%. The taxable bonds have a stated weighted average interest rate of 4.1%. The deferred premium will be amortized as a reduction to interest expense over the term of the bonds.

In October 2012, General Revenue Bonds totaling $2 million, consisting of Taxable Clean Renewable Energy Bonds, were issued to pay for project construction and issuance costs. The bonds mature in 2022 and have a stated interest rate of 3%. The expected cash subsidy payment from the United States Treasury is equal to 100% of the posted tax credit rate.

In March 2013, General Revenue Bonds totaling $1.3 billion, including $806 million in tax-exempt and $501 million in taxable bonds, were issued. Proceeds including a bond premium of $137 million were used to refund $1.4 billion outstanding General Revenue Bonds. The bonds mature at various dates through 2039. The tax-exempt bonds have a stated weighted average interest rate of 4.7%. The taxable bonds have a stated weighted average interest rate of 3.5%. The deferred premium will be amortized as a reduction to interest expense over the term of the bonds.

In March 2013, General Revenue Bonds totaling $287 million in taxable fixed-rate notes were issued. Proceeds were used to refund $287 million of outstanding General Revenue Bonds. The taxable fixed-rate notes have a stated interest rate of 1.8%, maturing in 2019.

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, 2013, the outstanding balance of revenue bonds defeased in prior years was $1.4 billion for business-type activities. All previously defeased revenue bonds for governmental activities were redeemed by June 30, 2013.

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, 2013, the outstanding balance of University revenue bonds defeased in prior years was $227 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, or foreign currency at a set price on a future date. Futures 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 to 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, 2013, 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**
2014	$ 15,790	$ 6,497	$ 80,000	$ 102,287
2015	15,975	6,150	73,971	$ 96,096
2016	19,350	6,154	68,355	$ 93,859
2017	21,080	6,132	63,220	$ 90,432
2018	29,525	6,118	58,744	$ 94,387
2019-2023	232,825	29,722	239,574	$ 502,121
2024-2028	235,770	27,898	175,020	$ 438,688
2029-2033	448,515	25,678	111,015	$ 585,208
2034-2038	371,377	23,382	45,833	$ 440,592
2039-2043	735,788	9,278	10,224	$ 755,290
2044-2048	17,120	206	2,266	$ 19,592
Total	**$ 2,143,115**	**$ 147,215**	**$ 928,222**	**$ 3,218,552**

* Based on rates in effect on June 30, 2013.

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, 2013
(dollars in thousands)

	Classification	Fair Value	Notional Amount (in MMBtu) [1]
Effective hedges			
Natural gas swaps	Other current liabilities	$ (2,000)	460,000
Total effective hedges		**$ (2,000)**	

[1] Millions of British thermal units.

1. Natural Gas Swaps and Options

As of June 30, 2013, DWR no longer has outstanding natural gas option contracts. In prior years, DWR entered into natural gas hedge contracts, futures, and options to hedge the cost of natural gas. All natural gas options were treated as derivatives and classified as investment derivatives.

The DWR no longer has any forward natural gas purchase contracts. In prior years, most of the DWR's natural gas purchases were treated as Normal Purchase Normal Sale (NPNS) contracts and were not recorded prior to settlement. Natural gas forwards not qualifying as NPNS were recorded at fair value on the Statement of Net Position. Changes in the fair value of derivatives that are classified as investment derivatives are included as investment income or loss on the Statement of Revenues, Expenses, and Changes in Fund Net Position.

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, 2013, 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, 2013, 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 forward rate at June 30, 2013.

This page intentionally left blank.

All fiduciary fund derivative instruments are included in the investments disclosed in Note 3, Deposits and Investments. Changes in fair value are recorded as net appreciation or depreciation in fair value of investments in the Statement of Changes in Fiduciary Net Position. 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, 2013
(dollars in thousands)

Investment Type	Net Appreciation (Depreciation) in Fair Value	Classification	Fair Value Amount	Notional Dollars	Notional Units/Shares
Commodity futures long	$ (23,856)	Equity securities	$ —	$ —	—
Commodity futures long	(1,010)	Futures	—	28,073	—
Commodity futures short	(10,501)	Equity securities	—	—	—
Credit default swaps	(128)	Debt securities	(663)	39,969	—
Credit default swaps bought	(1,265)	Debt securities	(29)	12,800	—
Credit default swaps written	706	Debt securities	(104)	14,043	—
Fixed-income futures long	(7,963)	Equity securities	—	—	490,578
Fixed-income futures short	18,011	Equity securities	—	—	(522,652)
Fixed-income options bought	568	Equity securities	—	—	—
Fixed-income options written	(25,892)	Equity securities	(8,164)	—	(289,244)
Foreign currency forwards	32,091	Foreign currency contracts	13,151	9,265,383	—
Foreign currency options bought	413	Equity securities	—	—	—
Foreign currency options written	66	Equity securities	(59)	—	(3,424)
Foreign exchange forwards	382,233	Investment sales/purchases	129,070	23,450,446	—
Futures (domestic and foreign)	49,728	Futures	—	301,589	—
Futures options bought	(27,431)	Equity securities	877	—	4,600
Futures options written	25,358	Equity securities	(2,380)	—	(15,300)
Index futures long	2,338,736	Equity securities	—	—	71,240
Index options bought	(15,939)	Equity securities	—	—	150,000
Index options written	68,372	Equity securities	(1)	—	(150,000)
Interest rate swaps	(2,944)	Debt securities	—	—	—
Options	(5,008)	Debt securities	36,135 [1]	208,461	—
Pay fixed interest rate swaps	379	Debt securities	3,206	100,800	—
Receive fixed interest rate swaps	(1,724)	Debt securities	(1,796)	72,953	—
Rights	(10,953)	Equity securities	3,074	—	14,990
Rights	(4,369)	Equity securities	897	—	1,438 *
Total return bond swaps	(37,338)	Debt securities	(3,655)	4,156,814	—
Warrants	11,517	Equity securities	13,494	—	9,398
Warrants	956	Equity securities	1,174	—	269 *
Total	**$ 2,752,813**		**$ 184,227**	**$ 37,651,331**	**(238,107)**

[1] The total options of $36,135 is comprised of options bought and options written of $55,023 and $(18,888), respectively.

* Items with an asterisk are shares and those without are units.

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, 2013
(amounts in thousands)

Investment Type	Fair Value	Investment Maturities (in years) Under 1	1-10	10+
Credit default swaps	$ (663)	$ —	$ (663)	$ —
Credit default swaps bought	(29)	(2)	(27)	—
Credit default swaps written	(104)	—	(104)	—
Fixed-income options	33,000	—	33,000	—
Fixed-income options written	(8,164)	(8,164)	—	—
Pay fixed-interest-rate swaps	3,206	—	3,206	—
Receive fixed-interest-rate swaps	(1,796)	—	(1,971)	175
Total return bond swaps	(3,655)	(3,655)	—	—
Total	**$ 21,795**	**$ (11,821)**	**$ 33,441**	**$ 175**

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, 2013
(amounts in thousands)

Investment Type	Reference Rate	Fair Value	Notional Amount
Interest-rate swaps	Receive variable 3-month LIBOR[1], pay fixed 1.694%	$ 2,251	$ 29,720
	Receive variable 3-month LIBOR, pay fixed 1.400%	73	30,600
	Receive variable 3-month LIBOR, pay fixed 0.985%	592	27,220
	Receive variable 3-month LIBOR, pay fixed 0.764%	290	13,260
	Receive fixed 2.000%, pay variable 6-month LIBOR	175	10,872
	Receive fixed 1.000%, pay variable 6-month LIBOR	3	9,765
	Receive fixed 3.795%, pay variable 3-month BKBM[3]	(144)	2,471
	Receive fixed 2.0425%, pay variable 3-month LIBOR ...	(581)	10,850
	Receive fixed 0.430%, pay variable 3-month LIBOR	(9)	16,370
	Receive fixed 5.750%, pay variable 1-month TIIE[2]	(897)	15,201
	Receive fixed 5.750%, pay variable 1-month TIIE	(346)	5,865
	Receive fixed 5.500%, pay variable 1-month TIIE	3	1,559
Subtotal Interest-rate swaps		**$ 1,410**	**$ 173,753**
Fixed-income options			
Bought:	Swaption 10YR RTP Jan 23 3.9 PUT	$ 7,551	$ 100,000
	Swaption 10YR RTP May 23 4.06 PUT	13,990	200,000
	Swaption 10YR RTP Sept 19 3.13 PUT	28,625	250,000
Written:	Swaption 10YR RTP Jan 15 3.54 PUT	(3,729)	(100,000)
	Swaption 10YR RTP May 15 4.0575 PUT	(7,373)	(250,000)
	Swaption 10YR RTP May 15 4.025 PUT	(6,064)	(200,000)
Subtotal Fixed-income options		**$ 33,000**	**$ —**
Return bond swaps	Receive fixed 0.08%, pay fixed 0.00%	$ (624)	$ 266,544
	Receive fixed 0.07%, pay fixed 0.00%	(828)	353,994
	Receive fixed 0.00%, pay fixed 0.80%	(1,709)	1,232,297
	Receive fixed 0.00%, pay fixed 0.07%	(818)	2,165,395
	Receive fixed 0.00%, pay fixed 0.00%	324	138,584
Subtotal Return bond swaps		**$ (3,655)**	**$ 4,156,814**
	Total	**$ 30,755**	**$ 4,330,567**

[1] London Interbank Offered Rate (LIBOR)
[2] Tasa de Interes Interbancaria de Equilibrio (TIIE)
[3] New Zealand's Bank Bill Benchmark (BKBM)

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 exposure and 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, 2013

Counterparty	Percent of Net Exposure	S&P Ratings	Fitch Ratings	Moody's Ratings
Bank of America, N.A.	22.42 %	A	A	A3
JP Morgan Chase Bank, N.A. New York	15.66	A+	A+	Aa3
HSBC Bank USA	8.67	AA-	AA-	A1
Goldman Sachs International	8.60	A-	A	A3
Commonwealth Bank of Australia Sydney	7.23	AA-	AA-	Aa2
Bank of New York	4.67	A+	AA-	Aa3
Barclays Bank PLC Wholesale	4.66	A+	A	A2
Royal Bank of Canada	3.88	AA-	AA	Aa3
Citibank, N.A.	3.85	A	A	A3
BNP Paribas SA	3.17	A+	A+	A2
Morgan Stanley Capital Services Inc.	2.38	A-	A	Baa1
Royal Bank of Scotland PLC	2.36	A	A	A3
UBS AG	1.95	A	A	A2
Societe Generale	1.94	A	A+	A2
Standard Chartered Bank	1.91	AA-	AA-	A1
Deutsche Bank AG London	1.66	A+	A+	A2
JP Morgan Securities Inc.	1.13	A	A+	A2
Credit Suisse International	1.06	A+	A	A1
Goldman Sachs + CO	0.74	A-	A	A3
Credit Suisse London Branch (GFX)	0.42	A+	A	A1
UBS AG London	0.33	A	A	A2
Credit Suisse Securities (USA) LLC	0.28	A+	A	A1
JP Morgan	0.28	A	A+	A2
Canadian Imperial Bank of Commerce	0.16	A+	AA-	Aa3
Deutsche Bank Securities	0.15	A+	A+	A2
Citigroup	0.13	A-	A	Baa2
Westpac Banking Corp	0.12	AA-	AA-	Aa2
BNP Finance	0.10	A+	A+	A2
Barclays Capital	0.03	A+	A	A2
Goldman Sachs Capital Markets LP	0.03	A-	A	A3
JP Morgan Chase Bank, N.A. London	0.02	A+	A+	Aa3
JP Morgan Chase Bank	0.01	A+	A+	Aa3
Barclays Bank CME	0.00 [1]	A+	A	A2

[1] The Percentage of Net Exposure for Conterparty Barclays Bank CME is less than 0.01%.

In cases where a wholly owned broker-dealer subsidiary does not engage the rating companies for a stand-alone 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, 2013, the aggregate amount of cash collateral held at CalSTRS on behalf of the non-exchange-traded derivatives was $35 million. The aggregate fair value of investment derivative instruments in an asset position subject to counterparty credit risk at June 30, 2013, was $22 million. This represents the maximum loss that would be recognized at the reporting date if all counterparties failed to perform as contracted.

Table 35 depicts the counterparty credit ratings of CalSTRS non-exchange traded investment derivative instruments outstanding and subject to loss at June 30, 2013. The ratings used to determine the quality of the individual counterparty are the ratings with the highest degree of risk supplied by two nationally recognized statistical rating organizations (NRSROs).

Table 35

Schedule of Counterparty Credit Rating – California State Teachers' Retirement System
June 30, 2013
(amounts in thousands)

Ratings	Credit Default Swaps	Foreign Currency Forwards	Total
AA	$ —	$ 2,483	$ 2,483
A	312	19,223	19,535
Subtotal investments in asset position	**312**	**21,706**	**22,018**
Investments in liability position	(975)	(8,555)	(9,530)
Total investments in asset/ (liability) position	**$ (663)**	**$ 13,151**	**$ 12,488**

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 within their 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 which are derivative instruments that meet the criteria for an effective hedge. Certain 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. These swaps are comprised of derivative instruments, at-the-market swaps that are an effective hedge, and companion investments (a borrowing represented by up-front payment). The unamortized amount of the borrowing under the companion instrument was $29 million at June 30, 2013. 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) in the Statement of Net Position. 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, 2013
(amounts in thousands)

	Changes in Fair Value	Classification	Fair Value	Notional Amount
Investment derivatives				
Domestic equity futures contracts long	$ (7,460)	Investments	$ (2,470)	$ 603,484
Domestic equity futures contracts short	69	Investments	6	(1,200)
Foreign equity futures contracts long	97,622	Investments	493	52,193
Foreign equity futures contracts short	(181)	Investments	—	—
Foreign currency exchange contracts long	6,185	Investments	(296)	2,109,761
Foreign currency exchange contracts short	29,183	Investments	6,947	(16,323,059)
Swaps fixed interest rate	8,968	Investments	(21,367)	550,000
Swaps total return equity	(19)	Investments	(79)	7
Stock rights/warrants	286	Investments	5,179	609
Options/swap	(458)	Investments	983	3,781
Total investment derivatives	**$ 134,195**		**$ (10,604)**	**$ (13,004,424)**
Cash flow hedges				
Interest-rate swaps		Other noncurrent		
Pay fixed, receive variable	$ 23,737	assets (liabilities)	$ (45,758)	$ 204,995

Table 29 presents the State's debt service requirements and net swap payments as of June 30, 2013. Included in these amounts are the University's principal, variable interest, and interest-rate net swap payments in the amounts of $879 million, $124 million, and $136 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 some of its variable-rate Medical Center Pooled Revenue Bonds. The University has determined that a portion of its interest-rate swaps are derivative instruments that meet the criteria for an effective hedge.

Fair Value: The swaps have an estimated negative fair value of $46 million as of June 30, 2013. 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, 2013
(amounts in thousands)

Swap Termination Date	Effective Date	Outstanding Notional Amount at June 30, 2013	Fair Value at June 30, 2013	Fixed Rate Paid by University of California	Variable Rate Received by University of California	Counterparty Credit Ratings (Moody's, S&P's)
2032	2007	$ 80,220	$ (11,135)	3.5897 %	58% of 1-Month LIBOR* + 0.48%	Baa2, A-
2030 through 2043	2008	124,775	(34,623)	4.6359	67% of 3-Month LIBOR* + 0.69%**	A2, A+
Total		**$ 204,995**	**$ (45,758)**			

* 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 in an adverse market 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 $80 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, 2013, no collateral 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, 2013, the accumulated decrease or increase in the fair value of the effective swaps is reported as deferred outflow of resources or as deferred inflow of resources, respectively, in the Statement of Net Position. 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 Position and the Statement of Activities.

Table 38

Schedule of Swap Agreement Fair Value – California Housing Finance Agency
June 30, 2013
(amounts in thousands)

	Amount
Statement of Net Position:	
Other noncurrent assets	$ 137
Deferred outflows of resources	126,717
Other noncurrent liabilities	217,718
Statement of Activities:	
Other general revenues (expenses)	(6,124)

Table 29 presents the State's debt service requirements and net swap payments as of June 30, 2013. Included in these amounts are CalHFA's principal, variable interest, and interest-rate net swap payments in the amounts of $1.3 billion, $23 million, and $793 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, 2013, 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 holds eight basis swaps as a means to change the variable-rate formula received from counterparties for the $190 million outstanding notional amount from 65% of LIBOR to varying floating rates.

Terms, Fair Value, and Credit Risk: CalHFA uses 11 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, 2013, CalHFA had total cash and fair value of mortgage-backed securities posted as collateral with swap counterparties of $3 million and $59 million, respectively, in other assets and investments in the Statement of Net Position. As of June 30, 2013, CalHFA's swap portfolio has an aggregate negative fair value of $218 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 88 swap transactions, with outstanding notional amounts of $1.9 billion, with effective dates from April 6, 2000, to November 1, 2009, and scheduled termination dates from August 1, 2014, to August 1, 2042. Standard & Poor's credit ratings for these counterparties range from BBB to AA-; 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, 2013, the SIFMA rate was .06%, the one-month LIBOR was .19%, the three-month LIBOR was .27%, and the six-month LIBOR was .41%.

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.

This page intentionally left blank.

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, 2013
(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	$ —	$ 79,304	$ 323,442	$ 775,315	$ —
Federal Fund	361,133	1,047,110	51,140	153,847	—
Transportation Fund	—	—	38,402	45,705	—
Environmental and Natural Resources Fund	—	—	—	99	—
Nonmajor governmental funds	341,939	22,878	18,715	16,156	—
Total governmental funds (Asset)	**703,072**	**1,149,292**	**431,699**	**991,122**	**—**
Enterprise funds					
Water Resources Fund	—	—	—	—	—
Public Buildings Construction Fund	563	—	—	—	—
State Lottery Fund	155	—	—	375,000	—
Unemployment Programs Fund	34,561	—	—	—	—
Nonmajor enterprise funds	2,509	—	156	217	—
Total enterprise funds (Asset)	**37,788**	**—**	**156**	**375,217**	**—**
Internal service funds	**23,845**	**16,517**	**5,327**	**18,667**	**4,000**
Total primary government (Asset)	**$ 764,705**	**$ 1,165,809**	**$ 437,182**	**$ 1,385,006**	**$ 4,000**

Due To								
Water Resources Fund	**Public Buildings Construction Fund**	**State Lottery Fund**	**Unemployment Programs Fund**	**California State University Fund**	**Nonmajor Enterprise Funds**	**Internal Service Funds**	**Fiduciary Funds**	**Total (Liability)**
$ —	$ —	$ —	$ —	$ —	$ —	$ 112,743	$ 10,370,360	$ 11,661,164
—	—	—	20,708	—	1,617	44,860	6,658,387	8,338,802
—	283	—	—	—	—	28,240	55,246	167,876
—	—	—	—	—	15	16,539	113	16,766
—	—	—	—	436	148	35,172	1,668,193	2,103,637
—	**283**	**—**	**20,708**	**436**	**1,780**	**237,554**	**18,752,299**	**22,288,245**
—	—	—	—	—	—	49,172	—	49,172
—	—	—	—	—	—	18,488	370	19,421
—	—	—	—	—	—	—	—	375,155
—	—	—	—	—	—	495	—	35,056
—	—	—	—	—	—	41	11	2,934
—	**—**	**—**	**—**	**—**	**—**	**68,196**	**381**	**481,738**
899	**29,851**	**277**	**1,708**	**—**	**552**	**5,139**	**689**	**107,471**
$ 899	**$ 30,134**	**$ 277**	**$ 22,416**	**$ 436**	**$ 2,332**	**$ 310,889**	**$ 18,753,369**	**$ 22,877,454**

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, Environmental and Natural Resources Funds, and nonmajor governmental funds—to the General Fund. The $3.6 billion in Transportation Fund loans payable from the General Fund also includes $1.1 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, 2013

(amounts in thousands)

	Interfund Payables			
Interfund Receivables	**General Fund**	**Transportation Fund**	**Environmental and Natural Resources Fund**	**Nonmajor Governmental Funds**
Governmental funds				
General Fund	$ —	$ 3,606,097	$ 535,477	$ 1,668,798
Transportation Fund	—	—	—	—
Environmental and Natural Resources Fund	7,000	3,979	—	—
Nonmajor governmental funds	6,117	—	—	—
Total governmental funds	**13,117**	**3,610,076**	**535,477**	**1,668,798**
Internal service funds	**40,650**	**—**	**—**	**172**
Total primary government	**$ 53,767**	**$ 3,610,076**	**$ 535,477**	**$ 1,668,970**

Interfund Payables				
Water Resources Fund	Unemployment Programs Fund	Nonmajor Enterprise Funds	Internal Service Funds	Total
$ —	$ 611,690	$ 5,600	$ 7,384	$ 6,435,046
—	—	—	2,648	2,648
—	—	—	—	10,979
—	—	—	—	6,117
—	**611,690**	**5,600**	**10,032**	**6,454,790**
91,517	**—**	**—**	**6,943**	**139,282**
$ 91,517	**$ 611,690**	**$ 5,600**	**$ 16,975**	**$ 6,594,072**

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, 2013
(amounts in thousands)

	Due To		
	Component Units		
Due From	University of California	Nonmajor Component Units	Total
Governmental funds			
General Fund	$ 169,215	$ —	$ 169,215
Transportation Fund	909	—	909
Environmental and Natural Resources Fund	2,000	11	2,011
Nonmajor governmental funds	36,988	—	36,988
Total governmental funds	**209,112**	**11**	**209,123**
Internal service funds	**—**	**2**	**2**
Total primary government	**$ 209,112**	**$ 13**	**$ 209,125**

This page intentionally left blank.

B. Interfund Transfers

Transfers move money collected by one fund to another fund, which then disburses it as required by law. The General Fund and certain other funds transfer money to support various programs accounted for in other funds. The largest transfer from the General Fund was $2.0 billion to California State University (a major enterprise fund). The State Highway Account transferred $678 million of weight fee revenues to the Transportation Debt Service Fund for reimbursement of debt service costs. The Federal Fund transferred $640 million to the General Fund for administration of the Unemployment Insurance Program.

Table 42 presents interfund transfers of the primary government.

Table 42

Schedule of Interfund Transfers
June 30, 2013
(amounts in thousands)

	Transferred To		
Transferred From	**General Fund**	**Transportation Fund**	**Environmental and Natural Resources Funds**
Governmental funds			
General Fund	$ —	$ —	$ 853
Federal Fund	640,445	—	150,415
Transportation Fund	69,136	—	10,909
Environmental and Natural Resources Fund	11,210	3,979	—
Nonmajor governmental funds	254,297	16	25,246
Total governmental funds	**975,088**	**3,995**	**187,423**
Public Buildings Construction Fund	**8,172**	—	—
California State Univeristy Fund	—	—	—
Nonmajor enterprise funds	**11,584**	—	—
Internal service funds	**16,413**	—	—
Total primary government	**$ 1,011,257**	**$ 3,995**	**$ 187,423**

Transferred To				
Nonmajor Governmental Funds	**Public Buildings Construction Fund**	**California State University Fund**	**Internal Service Funds**	**Total**
$ 855,543	$ —	$ 2,034,055	$ —	$ 2,890,451
30,108	—	—	—	820,968
717,356	—	—	—	797,401
16,794	—	—	—	31,983
78,391	—	—	—	357,950
1,698,192	**—**	**2,034,055**	**—**	**4,898,753**
—	**—**	**—**	**—**	**8,172**
16,540	**—**	**—**	**—**	**16,540**
—	**202**	**—**	**—**	**11,786**
40,354	**—**	**—**	**4,730**	**61,497**
$ 1,755,086	**$ 202**	**$ 2,034,055**	**$ 4,730**	**$ 4,996,748**

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, 2013
(amounts in thousands)

	General Fund	Federal Fund	Transportation Fund	Environmental and Natural Resources Fund	Nonmajor Governmental Funds
Nonspendable					
Long-term interfund receivables	$ 53,767	$ —	$ —	$ —	$ —
Long-term loans receivable	86,340	—	—	—	—
Other	—	—	—	—	15,022
Total nonspendable	**140,107**	**—**	**—**	**—**	**15,022**
Restricted					
General government	5,835	—	—	12,477	3,708,845
Education	79,303	296	4,784	—	833,151
Health and human services	87,381	257	—	1,198,829	1,563,980
Resources	247	10,809	—	5,648,940	77,368
State and consumer services	5,877	—	220,829	57,542	524,217
Business and transportation	—	186,591	6,965,234	44,310	3,075,709
Correctional programs	—	—	—	—	3,102
Total restricted	**178,643**	**197,953**	**7,190,847**	**6,962,098**	**9,786,372**
Committed					
General government	13,616	—	—	25,749	260,580
Education	1,301	—	—	—	34,728
Health and human services	7,962	—	1,926	—	236,333
Resources	—	—	13	819,971	729,645
State and consumer services	—	—	—	17,928	52,359
Business and transportation	—	—	47,471	—	76,380
Correctional programs	—	—	—	—	14,952
Total committed	**22,879**	**—**	**49,410**	**863,648**	**1,404,977**
Assigned – General government	—	—	—	—	209,171
Unassigned	**(14,596,085)**	**—**	**(9,560)**	**(7,870)**	**(158,636)**
Total fund balances (deficit)	**$ (14,254,456)**	**$ 197,953**	**$ 7,230,697**	**$ 7,817,876**	**$ 11,256,906**

B. Fund Deficits

Table 44 shows the funds that had deficits.

Table 44

Schedule of Fund Deficits
June 30, 2013
(amounts in thousands)

	Governmental Funds	Enterprise Funds
General Fund	$ 14,254,456	$ —
Unemployment Programs Fund	—	4,151,745
Total fund deficits	**$ 14,254,456**	**$ 4,151,745**

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 position categories of the government-wide and fund financial statements. As of June 30, 2013, the total value of restricted endowments and gifts was $12.1 billion and unrestricted endowments and gifts was $1.6 billion. The University's policy is to retain realized and unrealized 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 $1.7 billion at June 30, 2013. 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 $867 million and $7 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 $3.5 billion as of June 30, 2013. 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 $5.0 billion is discounted to $3.5 billion using a 3.5% interest rate. Of the total, $414 million is a current liability, of which $270 million is included in the General Fund, $141 million in the special revenue funds, and $3 million in the internal service funds. The remaining $3.1 billion is reported as other noncurrent liabilities in the government-wide Statement of Net Position.

The University of California, a discretely presented component unit, is self-insured or insured through a wholly-owned captive insurance company 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% to 5%.

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 Unit University of California	
	2013	**2012**	**2013**	**2012**
Unpaid claims, beginning	$ 3,204,635 *	$ 3,031,926 *	$ 599,176	$ 589,076
Incurred claims	754,641	554,701 *	421,832	347,331
Claim payments	(449,721)	(381,992) *	(389,210)	(337,231)
Unpaid claims, ending	**$ 3,509,555**	**$ 3,204,635 ***	**$ 631,798**	**$ 599,176**

* Restated

NOTE 21: DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES INCLUDING SERVICE CONCESSION ARRANGEMENTS

The GASB identified transactions relating to deferred outflows of resources and deferred inflows of resources through GASB Statement Nos. 53, 60, 63 and 65. The State of California early implemented GASB Statement No. 65 (GASB 65), *Items Previously Reported as Assets and Liabilities*, for the fiscal year beginning July 1, 2012.

The following discretely presented component units also early implemented GASB 65: California Infrastructure and Economic Development Bank, and California State University Auxiliary Organizations.

Certain transactions that were previously reported as assets and liabilities are now reclassified as deferred outflows of resources and deferred inflows of resources pursuant to GASB 65.

1. Deferred Outflows of Resources

The State of California's deferred outflows of resources consist of the following transactions:

- Loss on Refunding of Debt – Refunding of some previously outstanding general obligation bonds and revenue bonds resulted in losses for governmental activities, business-type activities and component units for the fiscal year 2012-13. These losses reported as deferred outflows of resources will be recognized as a component of interest expense in a systematic and rational manner over the remaining life of the old debt or the life of the new debt, whichever is shorter.

- Derivative Instrument – Negative changes in the fair value of hedging derivatives are reported as deferred outflows of resources. The business-type activities and component units reported decreases in fair value of hedging derivatives.

2. Deferred Inflows of Resources

The State of California's deferred inflows of resources consist of the following transactions:

- Service Concession Arrangements – The State and its component units have entered into service concession arrangements with third parties for park facility services, student housing, and certain other services. For the fiscal year 2012-13, the primary government and component units reported deferred inflow of resources from service concession arrangements.

  GASB Statement No. 60 (GASB 60), *Accounting and Financial Reporting for Service Concessions Arrangements,* is effective beginning July 1, 2012, for the State's fiscal reporting period. A service concession arrangement is an arrangement between a transferor (State) and an operator (State or non-governmental entity), where rights and obligations to provide services through the use of public assets are transferred to an operator by the transferor, in exchange for significant consideration, and the operator is compensated by fees collected from third parties. GASB requires retrospective application of GASB 60 for all periods presented.

  The State entered into various service concessions arrangements with independent third parties to develop, equip, operate, and maintain nonexclusive concessions at park grounds in exchange for fixed installment payments, for a fixed period of time. These third parties are compensated by user fees. These existing facilities are reported as capital assets by the State, the present value of installment payments are reported as receivables and a corresponding deferred inflow of resources is reported in the government-wide Statement of Net Position. The State reserves the right to provide or modify the types of goods and services provided by the operator to ensure that the public receives fair pricing, proper service and appropriate quality. The State is not obligated by the debts of the operator in the event of a default, nor does the State guarantee minimum revenue to the operator.

University of California, reported as a discretely presented component unit, has entered into service concession arrangements with third parties for student housing and certain other faculty and student services. Under these arrangements, the University enters into ground leases with third parties at minimal or no cost, and gives the third party the right to construct, operate, and maintain a facility, primarily for the benefit of students and faculty, at competitive rates. Rate increases for use of the facilities are subject to certain constraints, and ownership of the facilities reverts to the University upon expiration of the ground lease. The facilities are reported as capital assets by the University when placed in service, and a corresponding deferred inflow of resources is reported. The University has not provided guarantees on financing obtained by the third parties under these arrangements.

- Gain from Refunding of Debt – Refunding of some previously outstanding general obligation bonds and revenue bonds resulted in gains for governmental activities and discretely presented component units for the fiscal year 2012-13. These gains reported as deferred inflows of resources will be recognized as a component of interest expense in a systematic and rational manner over the remaining life of the old debt or the life of the new debt, whichever is shorter

- Other Deferred Inflows of Resources – Revenues generated from current rates from regulated business-type activities intended to recover costs that are expected to be incurred in the future.

In the fund financial statements, governmental funds reported deferred inflows of resources of $1.9 billion because this amount represents revenues that will be collected after year end, but are not available soon enough to pay for the current period expenditures. For deferred outflows and inflows of resources at the government-wide level, see table below.

Table 46

Schedule of Deferred Inflows of Resources and Deferred Outflows of Resources

(amounts in thousands)

	Primary Government			
	Governmental Activities	Business-Type Activities	Total	Component Units
Deferred Outflows of Resources:				
Deferred loss on refundings	911,178	478,308	$ 1,389,486	$ 5,071
Decrease in fair value of hedging derivatives	—	2,000	2,000	172,475
Total Deferred Outflows of Resources	**911,178**	**480,308**	**1,391,486**	**177,546**
Deferred Inflows of Resources:				
Deferred gain on refundings	(86,135)	—	(86,135)	(2,481)
Service concession arrangements	(72,807)	—	(72,807)	(31,575)
Other deferred inflows	—	(471,436)	(471,436)	—
Total Deferred Inflows of Resources	**$ (158,942)**	**$ (471,436)**	**$ (630,378)**	**$ (34,056)**

NOTE 22: NO COMMITMENT DEBT

Certain debt of the nonmajor component units is issued to finance activities such as the promotion of renewable energy sources and financing for economic development projects. 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, 2013, these component units had $4.2 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 $320 million, which is not debt of the State. CalHFA reported offsetting assets and liabilities related to these obligations. The net impact on net position 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, 2013; legal proceedings that were in progress as of June 30, 2013, and were settled or decided against the primary government as of April 16, 2014; and legal proceedings having a high probability of resulting in a decision against the primary government as of April 16, 2014, 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 the Bakersfield case, 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 (approximately $500 million) in these cases, should they prevail.

The primary government is a defendant in two cases, *Harley-Davidson, Inc. and Subsidiaries v. Franchise Tax Board* and *Abercrombie & Fitch Co. & Subsidiaries v. Franchise Tax Board,* both regarding the constitutionality of Revenue and Taxation code section 25101.15 allowing intrastate unitary businesses the option of reporting the income of various entities within the unitary business on either a separate or combined basis. Both plaintiffs claim, among other things, that section 25101.15 is discriminatory and they should be allowed to report the income of their business entities on a separate basis. The State is vigorously defending the constitutionality of section 25101.15. In Harley-Davidson, the Franchise Tax Board successfully demurred to the cause of action alleging that section 25101.15 was unconstitutionally discriminatory. Judgment on the entire case has been granted in favor of the board and the taxpayers have appealed. In Abercrombie, a trial has been set in February of 2015. If the plaintiffs prevail, the State would refund Harley-Davidson approximately $2 million plus interest and Abercrombie approximately $182 thousand plus interest from the General Fund. In addition, if the courts determine that section 25101.15 is unconstitutionally discriminatory, the potential total refunds to other taxpayers are unknown but could be substantial. The potential loss of future revenue, unless the Legislature were to act to address the alleged constitutional violation, would be even more substantial, as such a ruling could significantly diminish the State's ability to tax income apportionable to California under existing law.

The primary government is defendant in six cases, *Kimberly-Clark Worldwide, Inc. et al. v. Franchise Tax Board, Gillette Company v. Franchise Tax Board, Proctor & Gamble v. Franchise Tax Board, Sigma-Aldrich*, *Inc. v. Franchise Tax Board, RB Holdings (USA), Inc. v. Franchise Tax Board,* and *Jones Apparel Group Inc. v. Franchise Tax Board*, regarding the application of California's double-weighted sales factor apportionment formula under Revenue and Taxation Code section 25128. Plaintiffs contend that the single-weighted sales factor apportionment specified in Section 25128 prior to amendment was contained within the Multistate Tax Compact (Compact) and therefore cannot be modified without repealing the legislation that enacted the Compact. The State contends that California properly amended section 25128 to its understanding of the Compact. The parties have completed briefing in the California Supreme Court and await a hearing date. The total amount of tax refunds at issue in these six cases is approximately $40 million. An adverse ruling in these cases would affect multiple taxpayers and create potential exposure to refund claims in excess of $750 million.

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 five cases still pending. Neither the outcome nor the estimated potential loss for the remaining cases can be determined at this time.

The primary government is the defendant in a case, *Santa Clarita Valley Sanitation District of LA County (the District) v. Commission on State Mandates*, regarding a 2008 resolution by the Regional Water Quality Control Board for the Los Angeles Region (the Board) that imposed limits on chloride concentrations in water processed by the District's two water reclamation plants. The District alleges that the resolution created a reimbursable state mandate under Government Code section 17514 and article XII B, section 6, of the California Constitution. The District challenged the Board's resolution in a test claim before the California Commission on State Mandates (the Commission). In a January 31, 2014 decision, the Commission ruled the Board's resolution did not constitute a reimbursable state-mandated program under the California Constitution or Government

Code. The District filed a petition for administrative mandate seeking review of the Commission's decision. The estimated potential loss is about $6.5 million for costs incurred by petitioners to date and about $250 million in increased expenditures. Since this case is a test claim, other districts could also bring claims for reimbursement under the same theory.

The primary government is a party to the *Washington Mutual, Inc., et al. United States Bankruptcy Court* case. The case involves the propriety of tax refund claims submitted by Washington Mutual and its affiliates for multiple tax years through 2008. The underlying dispute centers on the taxpayer's claims of tax benefits arising from its use of certain net operating losses, Registered Investment Companies, Real Estate Investment Trusts, etc. A settlement agreement in the case is pending. The estimated potential loss is $223.5 million.

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.

The California Legislature passed and the Governor signed the "Public Employees' Pension Reform Act of 2013" (PEPRA) on September 12, 2012. PEPRA contained a number of provisions intended to reduce future pension obligations. PEPRA primarily affects new pension plan members who are enrolled for the first time after December 31, 2012. The financial impact will be gradually realized as total pension costs and the employer share of those costs decrease.

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 Plan, 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 94229-2703 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 earned. Employer contributions are recorded when earned and the employer has made a formal commitment to provide the contributions. Benefits and refunds in the defined benefit plans 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, the Defined Benefit Supplement Program, the Cash Balance Benefit Program, and the Replacement Benefit 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 95851-0275 or by visiting the CalSTRS website at www.CalSTRS.com.

CalSTRS uses the accrual basis of accounting. Member contributions are recognized in the period in which the contributions are earned. Employer and primary government contributions are recognized when earned 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 and cost-sharing defined benefit retirement plan. Employers participating in the PERF include the primary government and certain discretely presented component units, 61 school employers, and 1,520 public agencies as of June 30, 2013.

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 $57.4 billion at June 30, 2012, as a result of the difference between the actuarial value of assets of $283.0 billion and the actuarial accrued liability of $340.4 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 act as a common investment and administrative agent of the primary government and the other member agencies. 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, 2012 actuarial valuation, the payroll for primary government employees covered by the PERF for the 2011-12 fiscal year was $15.7 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 formulas. 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, 2013

	Normal Cost	Unfunded Liability	Group Term Life Benefit	Total Rate
Miscellaneous members				
First tier	8.370 %	12.057 %	0.076 %	20.503 %
Second tier	8.324	12.057	0.076	20.457
Industrial (first and second tier)	11.220	5.082	0.000	16.302
California Highway Patrol	14.162	19.540	0.026	33.728
Peace officers and firefighters	16.458	13.813	0.026	30.297
Other safety members	12.740	4.738	0.025	17.503

For the year ended June 30, 2013, the annual pension cost (APC) and the amount of contributions made by the primary government were each $3.2 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, 2012, 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.

B. Teachers' Retirement Fund

Plan Description: CalSTRS administers the Teachers' Retirement Fund, which is an employee benefit trust fund created to finance 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, 2013, the DB Program had 1,659 contributing employers and as of June 30, 2012, had 421,499 active and 178,655 inactive program members and 262,038 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, 2013, 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 amount of funds contributed. Vesting in the DBS Program occurs automatically with vesting in the DB Program. 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 or the election period determined by the employer. At June 30, 2013, the CB Benefit Program had 31 contributing school districts and 33,710 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 Section 415(m). Internal Revenue Code 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 Internal Revenue Code Section 415(b), subject to withholding for any applicable income or employment taxes. At June 30, 2013, the RB Program had 267 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, under the CalSTRS 2% at 60, contribution rate for members is 8.00% of creditable compensation, while under the CalSTRS 2% at 62, the contribution rate for members is 50% of the normal cost of their retirement plan, which resulted in an 8.00% contribution rate of creditable compensation for the fiscal year 2012-13. The employer contribution rate is 8.25% of creditable compensation. In fiscal year 2012-13, 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 actuarial 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 actuarial 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. Based on the most recent actuarial valuation, as of June 30, 2012, 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 1.024% starting October 1, 2013.

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, 2013, the APC for the DB Program was approximately $6.6 billion; the employer and primary government contributions were approximately $2.2 billion and $733 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.

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, 2012	June 30, 2012
Actuarial cost method	Individual Entry Age Normal	Entry Age Normal
Amortization method	Level % of Payroll, Closed	Level % of Payroll, Open
Remaining amortization period	18 - 23 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 6/30/11	$ 3,277	$ 5,985
Year ended 6/30/12	2,928	6,230
Year ended 6/30/13	3,236	6,629
Percent contribution		
Year ended 6/30/11	100 %	47 %
Year ended 6/30/12	100	46
Year ended 6/30/13	100	44
Funding as of last valuation (in millions)		
Actuarial value – assets	$ 106,145	$ 144,232
Actuarial accrued liabilities (AAL) – entry age	134,314	214,765
Unfunded actuarial accrued liability (UAAL)	28,169	70,533
Covered payroll	15,680	26,404
Funded ratio	79.0 %	67.2 %
UAAL as percent of covered payroll	179.6 %	267.1 %

[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 Teacher's Retirement Law, and the related Education Codes, the State and local government employers contributed $733 million and $2.2 billion, respectively, for the year ending June 30, 2013. Based on the most recent actuarial valuation, dated June 30, 2012, 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

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 0.25% 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 a self-funded 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 No. 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.

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 2012-13 fiscal year, approximately 163,100 annuitants were enrolled to receive health benefits and approximately 135,100 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 2013 monthly State contribution was $622 for one-party coverage, $1,183 for two-party coverage, and $1,515 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 No. 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 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, 2013, the State contributed $1.8 billion toward annuitants' health and dental benefits. Of this amount, the trial courts represent $33 million and certain discretely presented component units represent $5 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, 2013, 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, 2011	$ 4,359,929	36.70 %	$ 10,357,406
June 30, 2012	4,837,769	36.20	13,440,768
June 30, 2013	4,992,924	35.33	16,267,964

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, 2013
(amounts in thousands)

	Amount
Annual required contribution	$ 4,925,460
Interest on net OPEB obligation	586,532
Adjustment to annual required contribution	(519,068)
Annual OPEB cost	**4,992,924**
Contributions made	(1,763,872)
Increase in net OPEB obligation	3,229,052
Net OPEB obligation – beginning of year	**13,038,912** *
Net OPEB obligation – end of year	**$ 16,267,964**

* Beginning balance restated by $402 million due to elimination of discretely presented component units (GASB 61).

Funded Status and Funding Progress: As of June 30, 2013—the most recent actuarial valuation date for the State substantive plan—the actuarial accrued liability (AAL) for benefits was $64.6 billion, and the actuarial value of assets was $10 million, resulting in an unfunded actuarial accrued liability (UAAL) of $64.6 billion. The covered payroll (annual payroll of active employees covered by the plan) was $18.1 billion, and the ratio of the UAAL to the covered payroll was 358%.

For the trial courts, as of July 1, 2011—the most recent actuarial valuation date—the AAL for benefits was $1.4 billion and the actuarial value of assets was $17 million, resulting in an UAAL of $1.4 billion. The covered payroll was $922 million and the ratio of the UAAL to covered payroll was 148%.

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, 2013 State substantive plan actuarial valuation, the individual entry age normal cost method was used. The actuarial assumptions included a 4.25% investment rate of return and an annual health care cost trend rate of actual increases for 2014 and 8.50% in 2015, initially, reduced to an ultimate rate of 4.50% after six years. Both rates included a 2.75% annual inflation assumption. Annual wage inflation is assumed to be 3.00%. 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.

The University of California (University) is the employer providing OPEB benefits through its Retirement Health Plan to its eligible retirees and their families. As the University is the employer providing these benefits, the State will not be reporting these benefits in Note 25 or the Required Supplementary Information. Information regarding the University and references to its financial statements can be found in Note 1, Section A-3.

NOTE 26: SUBSEQUENT EVENTS

The following information describes significant events that occurred subsequent to June 30, 2013, but prior to the date of the auditor's report.

A. Debt Issuances

Between September 2013 and March 2014, the primary government issued $5.2 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; kindergarten-university public education facilities; and stem cell research.

In August 2013, the California State University (CSU) issued $309 million in revenue bonds to refund outstanding Systemwide Revenue Bonds Series 2005A and 2005C and other outstanding bond indebtedness by an auxiliary organization. Between July and September 2013, the CSU issued a combined total of $79 million in Bond Anticipation Notes (BANs) for the Student Health & Counseling Center at the San Jose campus and for student housing at the Bakersfield, Northridge, and San Diego campuses.

In August 2013, the Regents of the University of California, a discretely presented component unit, issued $650 million in revenue bonds to finance the East Campus Bed Tower project at UC San Diego Medical Center as well as other projects at UC Irvine Medical Center, UC Davis Medical Center and UCLA Medical Center. In October 2013, the Regents issued $2.5 billion in general revenue bonds to refinance the acquisition and construction of University facilities through the refunding of the outstanding Lease Revenue Bonds issued by the State Public Works Board of the State of California on behalf of the University. In April 2014, the Regents issued $970 million in general revenue bonds to finance or refinance the acquisition and construction of University facilities.

Between October 2013 and April 2014, the State Public Works Board issued a combined total of $1.9 billion in lease revenue bonds to finance and refinance the cost of design and/or construction of various projects for the benefit of the Department of Corrections and Rehabilitation, California State University, Department of Food and Agriculture, and Judicial Council of California.

In March 2014, the Department of Water Resources issued $161 million in water system revenue bonds to fund construction of certain Water System Projects, to refund outstanding water revenue commercial paper notes, to fund a deposit to the Debt Service Reserve Account, to fund interest on a portion of the bonds, and to pay the related issuance costs.

On September 1, 2013, the Department of Veterans Affairs voluntarily redeemed $44 million of general obligation bonds.

B. Cash Management

In August 2013, the State issued $5.5 billion of Revenue Anticipation Notes to fund the State's cash management needs for the 2013-14 fiscal year and to support the cash flow needs of the General Fund.

C. Other

In October 2013, the Governor signed into law Senate Bill No. 13. This legislation amends the Public Employees' Pension Reform Act of 2013 (PEPRA) correcting or clarifying several provisions including those related to new judges' retirement benefits. Key provisions of this legislation include requiring that new judges be subject to an employee contribution rate of at least 50% of the normal cost, and it corrected a requirement that new judges are not subject to the PEPRA retirement formulas. This law also provides clarification about accumulated additional contributions being used to calculate one of the benefit options for CalPERS safety members eligible for the industrial disability retirement benefits and who retire on or after January 1, 2013.

As of September 30, 2013, the cities of San Bernardino and Stockton are still seeking financial relief under Chapter 9 of the Federal Bankruptcy Code having filed for relief in the prior year, while the city of Mammoth Lakes has resolved its bankruptcy issues. The two local governments provide retirement benefits through CalPERS. One of the two cities met its pension obligations and remitted annual contributions during fiscal year 2012-13, while the other ceased paying its annual contributions for a period of time during the year and was approximately $14 million in arrears as of June 30, 2013. These local governments have yet to obtain confirmation of their final bankruptcy plans, and therefore, the outcome and the impact of the bankruptcy proceedings, at these stages of the cases, are unknown.

California's demand for unemployment insurance benefits required additional loans from the U.S. Department of Labor during the 2013-14 fiscal year. As of June 30, 2013, the State had $8.6 billion in outstanding loans from the U.S. Department of Labor which were used to cover deficits in the Unemployment Programs Fund. As of April 16, 2014, the State had an outstanding loan balance of $10.1 billion, and it expects to request additional loans throughout 2014.

In August 2013, Fitch Ratings raised its rating on the State's general obligation bonds to "A" from "A-" citing the State's institutional changes to fiscal management and its ongoing economic and revenue recovery. Fitch Ratings also raised its rating on State Public Works Board bonds to "A-" from "BBB+".

In November 2013, December 2013, and February 2014, the primary government substituted or extended the letters of credit for certain series of variable rate general obligation bonds and commercial paper notes to take advantage of lower letter of credit commitment fees. As a result of the letter of credit substitution or extension, new letter of credit and reimbursement agreements were entered into with expiration dates in 2016 and 2017. Also due to the substitution, Moody, Standard & Poor's Rating Services, and Fitch Rating raised ratings on various bond series and Fitch lowered its rating on other bonds.

In December 2013 and February 2014, the primary government removed one and added two letter of credit bank facilities to the commercial paper program, and new letter of credit and reimbursement agreements were entered into with expiration dates in 2016 and 2017. The commercial paper lines had a net increase from $1.6 billion to $1.7 billion.

This page intentionally left blank.

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, 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
June 30, 2012	106,145	134,314	28,169	79.0	15,680	179.6

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, 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
June 30, 2012	144,232	214,765	70,533	67.2	26,404	267.1

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, 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
June 30, 2013	10	64,584	64,574	0.0	18,060	357.6
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	922	148.4

[1] The trial courts reporting is based on 49 individual biennial actuarial valuations as of July 1, 2011.

Note: The University of California (UC) is the employer providing OPEB benefits through its Retirement Health and Welfare Plans to its eligible retirees and their families. As UC is the employer providing these benefits, the State will not be reporting these benefits in Note 25 or the Required Supplementary Information. Information regarding the University of California and references to their financial statements can be found in Note 1, Section A-3.

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, 2013, are in the following categories and amounts: state highway infrastructure (completed highway projects) totaling $63.4 billion, land purchased for highway projects totaling $12.8 billion, and infrastructure construction-in-progress (uncompleted highway projects) totaling $8.3 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, 2013, donations are $6 million of infrastructure land, and relinquishments are $66 million of state highway infrastructure and $13 million of infrastructure land, respectively.

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' "Guide to Commonly Recognized Structural Elements."

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 2010-11 through 2012-13 are shown in the following table:

Fiscal Year Ending June 30	Established BHI Baseline*	Actual BHI
2011	80.0	94.3
2012	80.0	94.5
2013	80.0	94.8

* 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, 2013:

BHI Description	Bridge Count	Percent	Network BHI
Excellent	6,952	53.19 %	99.9
Good	4,716	36.08	96.6
Acceptable	760	5.81	85.4
Fair	156	1.19	73.6
Poor	116	0.89	66.2
Does not carry traffic	371	2.84	93.1
Total	**13,071**	**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
March 2008	18,000	12,998	26.3 %
December 2011 [3]	18,000	12,333	24.9
December 2013	18,000	7,820	15.7

[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	41,898	—
Fair	2,483	2,483
Poor	5,337	5,337
Total	49,718	7,820

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.

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)
2009	$ 2,910	$ 1,821
2010	2,162	694
2011	2,802	1,358
2012	2,722	1,504
2013	1,598	375

Budgetary Comparison Schedule

General Fund and Major Special Revenue Funds

Year Ended June 30, 2013
(amounts in thousands)

	General			
	Budgeted Amounts		Actual	Variance With
	Original	Final	Amounts	Final Budget
REVENUES				
Corporation tax	$ 7,580,000	$ 7,509,000	$ 7,459,443	$ (49,557)
Intergovernmental	—	—	—	—
Cigarette and tobacco taxes	91,000	91,000	90,005	(995)
Inheritance, estate, and gift taxes	45,000	—	—	—
Insurance gross premiums tax	2,022,000	2,156,000	2,221,317	65,317
Vehicle license fees	25,718	28,718	26,445	(2,273)
Motor vehicle fuel tax	—	—	—	—
Personal income tax	60,647,000	63,901,000	65,443,286	1,542,286
Retail sales and use taxes	20,714,000	20,240,000	20,414,799	174,799
Other major taxes and licenses	321,200	326,200	357,632	31,432
Other revenues	2,148,454	2,195,082	2,404,834	209,752
Total revenues	**93,594,372**	**96,447,000**	**98,417,761**	**1,970,761**
EXPENDITURES				
State and consumer services	1,335,204	681,611	661,143	20,468
Business and transportation	90,476	90,456	90,407	49
Resources	940,947	1,177,395	1,161,104	16,291
Health and human services	26,658,419	27,395,474	26,999,956	395,518
Correctional programs	8,820,897	8,700,193	8,500,608	199,585
Education	50,127,515	48,787,555	48,686,126	101,429
General government:				
Tax relief	438,852	438,852	427,285	11,567
Debt service	4,435,522	4,438,663	4,394,324	44,339
Other general government	4,786,351	5,204,292	4,987,016	217,276
Total expenditures	**97,634,183**	**96,914,491**	**95,907,969**	**1,006,522**
OTHER FINANCING SOURCES (USES)				
Transfers from other funds	—	—	2,047,256	—
Transfers to other funds	—	—	(344,599)	—
Other additions and deductions	—	—	1,681,288	—
Total other financing sources (uses)	—	—	**3,383,945**	—
Excess (deficiency) of revenues and other sources over (under) expenditures and other uses	—	—	5,893,737	—
Fund balances - beginning	—	—	**(1,608,600)**	—
Fund balances - ending	**$ —**	**$ —**	**$ 4,285,137**	**$ —**

Federal				Transportation			
Budgeted Amounts		**Actual**	**Variance With**	**Budgeted Amounts**		**Actual**	**Variance With**
Original	**Final**	**Amounts**	**Final Budget**	**Original**	**Final**	**Amounts**	**Final Budget**
$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
55,499,998	55,499,998	55,499,998	—	—	—	—	—
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
—	—	—	—	5,545,016	5,618,575	5,492,850	(125,725)
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
—	—	—	—	3,724,808	3,705,494	3,735,168	29,674
32	32	32	—	380,656	426,382	370,121	(56,261)
55,500,030	**55,500,030**	**55,500,030**	—	**9,650,480**	**9,750,451**	**9,598,139**	**(152,312)**
35,434	35,434	35,434	—	111,168	109,814	97,820	11,994
3,556,096	3,556,096	3,556,096	—	10,929,923	10,888,601	9,165,455	1,723,147
363,775	363,775	363,775	—	156,155	154,388	151,482	2,906
41,078,078	41,078,078	41,078,078	—	3,365	3,323	2,846	476
80,364	80,364	80,364	—	—	—	—	—
6,964,294	6,964,294	6,964,294	—	980	2,587	2,467	120
—	—	—	—	2,103	2,103	2,103	—
—	—	—	—	2,408	2,886	1,441	1,445
702,040	702,040	702,040	—	487,274	516,898	498,131	18,767
52,780,081	**52,780,081**	**52,780,081**	—	**11,693,376**	**11,680,600**	**9,921,745**	**1,758,855**
—	—	12,583,101	—	—	—	14,455,171	—
—	—	(15,280,390)	—	—	—	(16,264,844)	—
—	—	(22,628)	—	—	—	(1,114,596)	—
—	—	**(2,719,917)**	—	—	—	**(2,924,269)**	—
—	—	32	—	—	—	(3,247,875)	—
—	—	**10,737**	—	—	—	**25,690,829**	—
$ —	**$ —**	**$ 10,769**	**$ —**	**$ —**	**$ —**	**$ 22,442,954**	**$ —**

(continued)

Budgetary Comparison Schedule (continued)

General Fund and Major Special Revenue Funds

Year Ended June 30, 2013
(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	148,326	148,326	148,326	—
Other revenues	3,175,948	3,175,948	3,175,948	—
Total revenues	**3,324,274**	**3,324,274**	**3,324,274**	**—**
EXPENDITURES				
State and consumer services	83,374	83,216	67,297	15,919
Business and transportation	5,668	5,666	5,666	—
Resources	4,494,202	4,502,774	3,761,481	741,293
Health and human services	220,228	219,550	115,043	104,507
Correctional programs	—	—	—	—
Education	8,166	8,165	8,025	140
General government:				
Tax relief	—	—	—	—
Debt service	—	—	—	—
Other general government	95,621	97,358	84,575	12,783
Total expenditures	**4,907,259**	**4,916,729**	**4,042,087**	**874,642**
OTHER FINANCING SOURCES (USES)				
Transfers from other funds	—	—	483,438	—
Transfers to other funds	—	—	(380,327)	—
Other additions and deductions	—	—	160,218	—
Total other financing sources (uses)	**—**	**—**	**263,329**	**—**
Excess (deficiency) of revenues and other sources over (under) expenditures and other uses	—	—	(454,484)	—
Fund balances - beginning	**—**	**—**	**12,479,726**	**—**
Fund balances - ending	**$ —**	**$ —**	**$ 12,025,242**	**$ —**

(concluded)

Reconciliation of Budgetary Basis Fund Balances of the General Fund and the Major Special Revenue Funds to GAAP Basis Fund Balances

June 30, 2013
(amounts in thousands)

		Special Revenue Funds		
	General	**Federal**	**Transportation**	**Environmental and Natural Resources**
Budgetary fund balance reclassified into GAAP statement fund structure	$ 4,285,137	$ 10,769	$ 22,442,954	$ 12,025,242
Basis difference:				
Interfund receivables	53,767	—	3,610,076	535,477
Loans receivable	165,643	186,236	—	1,023,710
Interfund payables	(6,435,046)	—	(2,648)	(10,979)
Escheat property	(905,203)	—	—	—
Bonds authorized but unissued	—	—	(17,805,340)	(5,905,460)
Tax revenues	283,600	—	—	—
GASB 54 classification changes	85,562	1,738	—	—
Other	6,075	—	(839,405)	156,953
Timing difference:				
Liabilities budgeted in subsequent years	(11,793,991)	(790)	(174,940)	(7,067)
GAAP fund balance (deficit), June 30, 2013	$ (14,254,456)	$ 197,953	$ 7,230,697	$ 7,817,876

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 balances on the budgetary basis are calculated using 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 $54 million increase to the fund balance in the General Fund, a $3.6 billion increase to the fund balance in the Transportation Fund, and a $535 million increase to the fund balance in Environmental and Natural Resources Fund. The adjustments related to loans receivable caused increases of $166 million in the General Fund, $186 million in the Federal Fund, and $1.0 billion 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 $6.4 billion decrease to the budgetary fund balance in the General Fund, $3 million decrease to the Transportation Fund, and $11 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 $905 million 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 $17.8 billion decrease to the fund balance in the Transportation Fund and a $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 increase of $284 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 Statement No. 54 can be found in Note 1, Summary of Significant Accounting Policies, Section K. These reclassifications caused fund balance increases of $86 million in the General Fund and $2 million in the Federal Fund. The $86 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 $6 million in the General Fund, a fund balance decrease of $839 million in the Transportation Fund, and a $157 million increase 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 $11.7 billion in the General Fund, $790 thousand in the Federal Fund, $175 million in the Transportation Fund, and $7 million in the Environmental and Natural Resources Fund. The large decrease in the General Fund primarily consists of $4.2 billion for deferred apportionment payments to K-12 schools and community colleges, $2.7 billion for medical assistance, $2.2 billion in tax overpayments, $732 million for June 2013 payroll that was deferred to July 2013, and $431 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

Date:	April 21, 2014
Deputy:	John F. Collins II, CPA
Project Managers:	Theresa Farmer, CPA Jim Sandberg-Larsen, CPA, CPFO, Audit Principal Mike Tilden, CPA, Audit Principal
Team Leads:	Nasir Ahmadi, CPA Sally Arizaga Mary Camacho, CPA Angela Dickison, CPA Tim Jones Nicholas Kolitsos, CPA, MBA Joseph R. Meyer, CPA Dan Motta, CPA
Staff:	Reed Adam Laurence Ardi Keith Auyang Lisa Ayrapetyan, CIA, CFE Kelly Chen Vivian Chu Brandon A. Clift, CFE John Dickey, CPA Brian Dunn Andrew Esterson Matt Gannon Carol Hand Kevin Henry, MBA Nathaniel Jones Veronica Kaufman Tina Kobler Martin T. Lee, CPA Richard Marsh, MST Gregory D. Martin Patrick B. McCasland, CPA Michelle O'Connor, CPA April Ramos, CPA Sandra Relat, CPA
Legal Counsel:	Scott A. Baxter, JD

For questions regarding the contents of this report, please contact
Margarita Fernández, Chief of Public Affairs, at (916) 445-0255.