This Preliminary Official Statement and the information contained herein are subject to completion or amendment without notice. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of, these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction.

PRELIMINARY OFFICIAL STATEMENT DATED AUGUST 19, 2015

NEW ISSUE – BOOK ENTRY ONLY

Ratings: Moody's: Aa3
S&P: AA-
Fitch: A+
(See "RATINGS")

In the opinion of Bond Counsel to the State of California (the "State"), interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and interest on the Bonds is exempt from State of California personal income taxes. See "TAX MATTERS."

$1,900,000,000*
STATE OF CALIFORNIA
GENERAL OBLIGATION BONDS

$550,000,000*
VARIOUS PURPOSE
GENERAL OBLIGATION BONDS

$1,350,000,000*
VARIOUS PURPOSE
GENERAL OBLIGATION REFUNDING BONDS

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

The State of California is issuing $550,000,000* Various Purpose General Obligation Bonds (the "Construction Bonds") and $1,350,000,000* Various Purpose General Obligation Refunding Bonds (the "Refunding Bonds"), all bearing interest at fixed rates (collectively, the "Bonds").

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

Certain of the Bonds are subject to optional and mandatory sinking fund redemption prior to their respective stated maturities, as described herein.* See "THE BONDS—Redemption."

Interest on the Bonds is payable on February 1 and August 1 of each year, commencing February 1, 2016, at the respective rates per annum set forth on the inside front cover. The Bonds may be purchased in principal amounts of $5,000 or any integral multiple thereof in book-entry form only. See "THE BONDS—General" and APPENDIX B—"THE BOOK-ENTRY ONLY SYSTEM."

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

MATURITIES, PRINCIPAL AMOUNTS,
INTEREST RATES, PRICES OR YIELDS AND CUSIPS
(See Inside Front Cover)

The Bonds are offered when, as and if issued by the State and received by the Underwriters, subject to the approval of validity by the Honorable Kamala D. Harris, Attorney General of the State of California, and by Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the State. Orrick, Herrington & Sutcliffe LLP and Nixon Peabody LLP are serving as Co-Disclosure Counsel to the State with respect to the Bonds. Orrick, Herrington & Sutcliffe LLP and Stradling Yocca Carlson & Rauth, a Professional Corporation, are serving as Co-Disclosure Counsel to the State regarding Appendix A. Certain matters will be passed upon for the Underwriters by their counsel, Hawkins Delafield & Wood LLP. Public Resources Advisory Group is serving as the Financial Advisor to the State with respect to the Bonds. The Bonds are expected to be available for delivery through the facilities of The Depository Trust Company on or about September 9, 2015.

HONORABLE JOHN CHIANG
Treasurer of the State of California

J.P. Morgan
(Joint Senior Manager)

Morgan Stanley
(Joint Senior Manager)

Loop Capital Markets
(Co-Senior Manager)

U.S. Bancorp Investments, Inc.
(Co-Senior Manager)

Academy Securities, Inc.	**Fidelity Capital Markets**	**Prager & Co., LLC**
Alamo Capital	**FirstSouthwest**	**Ramirez & Co., Inc.**
Backstrom McCarley Berry & Co., LLC	**FTN Financial Capital Markets**	**Raymond James**
BofA Merrill Lynch	**Goldman, Sachs & Co.**	**RBC Capital Markets**
Barclays	**Hutchinson, Shockey, Erley & Co.**	**RH Investment Corporation**
Blaylock Beal Van, LLC	**Jefferies**	**Rice Financial Products Company**
CastleOak Securities, L.P.	**Mesirow Financial, Inc.**	**Siebert Brandford Shank & Co., L.L.C.**
Citigroup	**Piper Jaffray & Co.**	**Stifel**
Drexel Hamilton, LLC		**Wells Fargo Securities**

* Preliminary, subject to change.

MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES, YIELD AND CUSIPS†

$550,000,000*
STATE OF CALIFORNIA
VARIOUS PURPOSE GENERAL OBLIGATION BONDS

Base CUSIP†:

Maturity Date (August 1)	Principal Amount	Interest Rate	Price or Yield	CUSIP† Suffix	Maturity Date (August 1)	Principal Amount	Interest Rate	Price or Yield	CUSIP† Suffix

$1,350,000,000*
STATE OF CALIFORNIA
VARIOUS PURPOSE GENERAL OBLIGATION REFUNDING BONDS

Base CUSIP†:

Maturity Date (August 1)	Principal Amount	Interest Rate	Price or Yield	CUSIP† Suffix	Maturity Date (August 1)	Principal Amount	Interest Rate	Price or Yield	CUSIP† Suffix

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* Preliminary, subject to change.

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

The information set forth herein has been obtained from sources that are believed to be reliable. Estimates and opinions are included and should not be interpreted as statements of fact. Summaries of documents do not purport to be complete statements of their provisions and such summaries are qualified by references to the entire contents of the summarized documents. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made by use of this Official Statement shall, under any circumstances, create any implication that there has been no change in the affairs of the State since the date hereof.

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

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

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

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

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

This Preliminary Official Statement is available as public information on the State Treasurer's website at http://www.treasurer.ca.gov.

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OFFICIAL STATEMENT

$1,900,000,000*
STATE OF CALIFORNIA
GENERAL OBLIGATION BONDS

$550,000,000* **VARIOUS PURPOSE GENERAL OBLIGATION BONDS**	**$1,350,000,000*** **VARIOUS PURPOSE GENERAL OBLIGATION REFUNDING BONDS**

INTRODUCTION

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

Description of the Bonds

This Official Statement describes $1,900,000,000* aggregate principal amount of (i) various purpose general obligation bonds to be issued by the State consisting of ________ (___) series of bonds in the aggregate principal amount of $550,000,000* (the "Construction Bonds"), and (ii) various purpose general obligation refunding bonds to be issued by the State consisting of ___________ (___) series of bonds in the aggregate principal amount of $1,350,000,000* (the "Refunding Bonds" and, together with the Construction Bonds, the "Bonds"). The Bonds are described further below under "THE BONDS." The Bonds will be registered in the name of a nominee of The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for the Bonds. Beneficial interests in the Bonds may be purchased in book-entry form only, in denominations of $5,000 or any integral multiple thereof. See "THE BONDS—General" and APPENDIX B—"THE BOOK-ENTRY ONLY SYSTEM."

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

* Preliminary, subject to change.

Plan of Finance

Proceeds of the Construction Bonds will be used to: (i) fund projects under certain of the Bond Acts, (ii) pay certain of the State's outstanding general obligation commercial paper notes (the "CP Notes") as they mature and (iii) pay certain costs of issuance of the Construction Bonds.

Proceeds of the Refunding Bonds will be used to: (i) current or advance refund certain of the State's general obligation bonds for debt service savings and (ii) pay certain costs of issuance of the Refunding Bonds. See "THE BONDS—Plan of Refunding."

Future General Obligation Bond Sales

In addition to the Bonds described in this Official Statement, the State currently expects to issue one or more additional series of its fixed rate general obligation bonds (the "Additional GO Bonds") pursuant to a competitive sale during the week of October 19, 2015. The expected issuance date and par amount of the Additional GO Bonds, if any are issued, are subject to change based upon legal, market and other factors.

Security and Source of Payment for the Bonds

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

Redemption of Bonds

Certain of the Bonds are subject to optional and mandatory sinking fund redemption prior to their respective stated maturity dates as described herein.* See "THE BONDS—Redemption."

Financial Condition of the State General Fund

The following paragraphs present an extremely abbreviated summary of certain fiscal issues relating to the State, all of which are *described in more detail in APPENDIX A. All cross references under this heading are to sections of APPENDIX A—"THE STATE OF CALIFORNIA." Investors should review the whole of APPENDIX A.*

The State's fiscal health has significantly improved since the end of the severe recession in 2009. Voters approved Proposition 30 in November 2012, providing increased revenues through December 31, 2018. Voters also approved Proposition 2 in November 2014, which directs specified revenues towards increasing reserves in the Budget Stabilization Account ("BSA"), the State's rainy day fund, and paying down specified debts. See "DEBTS AND LIABILITIES UNDER PROPOSITION 2" and "STATE FINANCES – REVENUES, EXPENDITURES AND

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* Preliminary, subject to change.

RESERVES—Budget Reserves—Budget Stabilization Account." In recent years, the State has paid off billions of dollars of budgetary borrowings, debts and deferrals which were accumulated in order to balance budgets during the previous recession and years prior. See "CURRENT STATE BUDGET—Multi-Year Budget Projections."

By the end of fiscal year 2015-16, the BSA is projected to have a balance of $3.5 billion. Under the Proposition 2 requirements, the 2015 Budget Act directs an additional $1.9 billion to pay off loans from special funds, pay down past liabilities from Proposition 98, and help the University of California reduce its employee pension unfunded liability.

In addition, the 2015-16 Budget repays the remaining $1 billion in budgetary deferrals to schools and community colleges, discharges the last of the $15 billion in Economic Recovery Bonds that were issued to cover budget deficits from as far back as 2002, repays local governments $765 million in mandated reimbursements, and reduces outstanding mandate liabilities owed to schools and community colleges by $3.8 billion.

Despite the recent significant budgetary improvements, there remain a number of budget risks that threaten the State's financial condition, including the significant unfunded liabilities of the two main retirement systems managed by State entities, the California Public Employees' Retirement System ("CalPERS") and the California State Teachers' Retirement System ("CalSTRS"). In recent years, the State has committed to significant increases in annual payments to these systems to reduce the unfunded liabilities. The State also has a significant unfunded liability with respect to other post-employment benefits. See "CURRENT STATE BUDGET—Budget Risks" and "STATE FINANCES – OTHER ELEMENTS—Retiree Health Care Costs."

In addition, the State's revenues (particularly the personal income tax) can be volatile and correlate to overall economic conditions. See "STATE FINANCES – REVENUES, EXPENDITURES AND RESERVES—Sources of Tax Revenue." Under Proposition 2, upswings in personal income taxes derived from capital gains will be deposited in the BSA and used to pay off certain of the State's debts and liabilities. However, during the last recession the State experienced a significant economic downturn and State tax revenues declined precipitously, resulting in budget deficits in the tens of billions of dollars. There can be no assurances that the State will not face fiscal stress and cash pressures again, or that other changes in the State or national economies will not materially adversely affect the financial condition of the State.

Information Related to this Official Statement

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

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

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

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

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

Continuing Disclosure

The State Treasurer will agree on behalf of the State to provide annually certain financial information and operating data relating to the State by not later than April 1 of each year in which any Bonds are outstanding (the "Annual Report"), commencing with the report to be filed on or before April 1, 2016, containing 2014-2015 Fiscal Year financial information, and to provide notice of the occurrence of certain enumerated events. The specific nature of the information to be contained in the Annual Report and the notices of events and certain other terms of the continuing disclosure obligation are set forth in APPENDIX C—"FORM OF CONTINUING DISCLOSURE CERTIFICATE." The State Treasurer has adopted policies and procedures designed to ensure compliance with these undertakings.

The State's Annual Reports and other required reports relating to the Bonds will be available from the Electronic Municipal Market Access ("EMMA") website (www.emma.msrb.org) operated by the Municipal Securities Rulemaking Board ("MSRB") or on such other website as may be designated by the MSRB or the Securities and Exchange

Commission. The information contained on any such website is not part of this Official Statement and is not incorporated herein.

AUTHORIZATION OF AND SECURITY FOR THE BONDS

Authorization

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

Security

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

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

AND OTHER OBLIGATIONS—Capital Facilities Financing—General Obligation Bonds" and "—CASH MANAGEMENT."

Remedies

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

The Resolutions do not contain any provision providing for the acceleration of the Bonds. Each Resolution states that in the case that one or more events of default occurs, then, and in every such case, the registered Bondholder is entitled to proceed to protect and enforce such registered Bondholder's rights by such appropriate judicial proceeding as such registered Bondholder deems most effectual to protect and enforce any such right, whether by mandamus or other suit or proceeding at law or in equity, for the specific performance of any covenant or agreement contained in the one or more Resolutions authorizing the affected Bonds, as more specifically set forth in each Resolution authorizing the Bonds pursuant to the respective Bond Acts. Beneficial owners of the Bonds (the "Beneficial Owners") cannot protect and enforce such rights except through the registered Bondholder. See "THE BONDS—General" and APPENDIX B—"THE BOOK-ENTRY ONLY SYSTEM."

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

THE BONDS

General

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

The Bonds will be dated and accrue interest from the date of their delivery, and will mature on the dates and in the amounts set forth on the inside front cover page of this Official Statement. Interest on the Bonds will be calculated on the basis of a 360-day year comprising twelve 30-day months. Interest on the Bonds is payable on February 1 and August 1 in each year commencing on February 1, 2016 at the rates shown on the inside front cover page of this Official Statement. If any payment on the Bonds is due on a day other than a Business Day, such payment shall be made on the next succeeding Business Day, and no interest will accrue as a result. Business Day means any day other than a Saturday, a Sunday, a State holiday or any other day determined not to constitute a

Business Day pursuant to the book-entry only system of DTC. Certain State holidays may fall on days that are not banking holidays, and can vary from year to year.

Principal and interest (including the redemption price, if any) are payable directly to DTC by the State Treasurer. Upon receipt of payments of principal and interest, DTC is to in turn remit such principal and interest to the Direct Participants in DTC for disbursement by the Participants to the Beneficial Owners of the Bonds. The record date for the payment of interest on the Bonds is the close of business on the 15th day of the month immediately preceding an interest payment date, whether or not the record date falls on a Business Day.

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

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

Identification, Authorization and Purposes of the Bonds

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

A portion of the proceeds of the Construction Bonds, after payment of costs of issuance, will be used to finance or refinance capital facilities or other voter-approved costs for public purposes, including: correctional facilities; parks and recreation, clean water and clean air; reading and literacy improvement and public libraries; safe drinking water; children's hospitals; earthquake safety and public building rehabilitation; public primary, secondary, community college and university education facilities; highway safety, traffic reduction, air quality and port security; transportation; housing and emergency shelters; clean water, watershed protection and flood protection; water security, water quality, water supply and river, coastal and beach protection; water conservation; medical research; seismic retrofit; veterans' homes; disaster preparedness and flood prevention; wildlife, coastal and parkland conservation; and local rail projects, pursuant to the Bond Acts identified below. Such proceeds may only be used for the aforementioned purposes and may not be borrowed for cash flow management or budgetary purposes.

Construction Bonds are general obligations of the State, and holders of the Construction Bonds do not assume any specific project risk related to any of the funded projects.

Bond Act*	**Finance Committee***	**Series Designation**	**Amount ($)**
1988 School Facilities Bond Act	State School Building Finance Committee		
1990 School Facilities Bond Act	State School Building Finance Committee		
1992 School Facilities Bond Act	State School Building Finance Committee		
California Clean Water, Clean Air, Safe Neighborhood Parks, and Coastal Protection Act of 2002	California Clean Water, Clean Air, Safe Neighborhood Parks, and Coastal Protection Act Finance Committee		
California Library Construction and Renovation Bond Act of 1988	California Library Construction and Renovation Finance Committee		
California Park and Recreational Facilities Act of 1984	Parklands Program Finance Committee		
California Reading and Literacy Improvement and Public Library Construction and Renovation Bond Act of 2000	California Library Construction and Renovation Finance Committee		
California Safe Drinking Water Bond Law of 1976	Safe Drinking Water Finance Committee		
California Safe Drinking Water Bond Law of 1988	California Safe Drinking Water Finance Committee		
California Stem Cell Research and Cures Bond Act of 2004	California Stem Cell Research and Cures Finance Committee		
California Water Resources Development Bond Act	California Water Resources Development Finance Committee		
California Wildlife, Coastal, and Park Land Conservation Act	California Wildlife, Coastal, and Park Land Conservation Program of 1988 Finance Committee		
Children’s Hospital Bond Act of 2004	Children’s Hospital Bond Act Finance Committee		
Children’s Hospital Bond Act of 2008	Children’s Hospital Bond Act Finance Committee		
Class Size Reduction Kindergarten-University Public Education Facilities Bond Act of 1998	State School Building Finance Committee		
Class Size Reduction Kindergarten-University Public Education Facilities Bond Act of 1998	Higher Education Facilities Finance Committee		
Clean Air and Transportation Improvement Bond Act of 1990	Transportation Improvement Finance Committee		
Clean Water and Water Reclamation Bond Law of 1988	Clean Water and Water Reclamation Finance Committee		
County Correctional Facility Capital Expenditure and Youth Facility Bond Act of 1988	1988 County Correctional Facility Capital Expenditure and Youth Facility Finance Committee		

* Preliminary, subject to change.

Bond Act*	Finance Committee*	Series Designation	Amount ($)
Disaster Preparedness and Flood Prevention Bond Act of 2006	Disaster Preparedness and Flood Prevention Bond Finance Committee		
Earthquake Safety and Public Buildings Rehabilitation Bond Act of 1990	Earthquake Safety and Public Buildings Rehabilitation Finance Committee		
Higher Education Facilities Bond Act of 1988	Higher Education Facilities Finance Committee		
Higher Education Facilities Bond Act of June 1990	Higher Education Facilities Finance Committee		
Higher Education Facilities Bond Act of June 1992	Higher Education Facilities Finance Committee		
Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006	Highway Safety, Traffic Reduction, Air Quality, and Port Security Committee		
Housing and Emergency Shelter Trust Fund Act of 2002	Housing Finance Committee		
Housing and Emergency Shelter Trust Fund Act of 2006	Housing Finance Committee		
Housing and Homeless Bond Act of 1990	Housing Committee		
Kindergarten-University Public Education Facilities Bond Act of 2002	Higher Education Facilities Finance Committee		
Kindergarten-University Public Education Facilities Bond Act of 2002	State School Building Finance Committee		
Kindergarten-University Public Education Facilities Bond Act of 2004	Higher Education Facilities Finance Committee		
Kindergarten-University Public Education Facilities Bond Act of 2004	State School Building Finance Committee		
Kindergarten-University Public Education Facilities Bond Act of 2006	State School Building Finance Committee		
Kindergarten-University Public Education Facilities Bond Act of 2006	Higher Education Facilities Finance Committee		
New Prison Construction Bond Act of 1988	1988 Prison Construction Committee		
New Prison Construction Bond Act of 1990	1990 Prison Construction Committee		
Passenger Rail and Clean Air Bond Act of 1990	Passenger Rail Finance Committee		
Public Education Facilities Bond Act of 1996	State School Building Finance Committee		
Public Education Facilities Bond Act of 1996	Higher Education Facilities Finance Committee		
Safe, Clean, Reliable Water Supply Act	Safe, Clean, Reliable Water Supply Finance Committee		
Safe Drinking Water, Clean Water, Watershed Protection, and Flood Protection Act	Safe Drinking Water, Clean Water, Watershed Protection, and Flood Protection Finance Committee		
Safe Drinking Water, Water Quality and Supply, Flood Control, River and Coastal Protection Bond Act of 2006	Safe Drinking Water, Water Quality and Supply, Flood Control, River and Coastal Protection Finance Committee		

* Preliminary, subject to change.

Bond Act*	Finance Committee*	Series Designation	Amount ($)
Safe Neighborhood Parks, Clean Water, Clean Air, and Coastal Protection Bond Act of 2000 (the Villaraigosa-Keeley Act)	Safe Neighborhood Parks, Clean Water, Clean Air, and Coastal Protection (Villaraigosa-Keeley Act) Finance Committee		
Safe, Reliable High-Speed Passenger Train Bond Act for the 21st Century (Only projects to be funded pursuant to Section 2704.095 of the California Streets and Highways Code)	High-Speed Passenger Train Finance Committee		
School Facilities Bond Act of 1990	State School Building Finance Committee		
School Facilities Bond Act of 1992	State School Building Finance Committee		
Seismic Retrofit Bond Act of 1996	Seismic Retrofit Finance Committee		
Veterans Homes Bond Act of 2000	Veterans Home Finance Committee		
Veterans Housing and Homeless Prevention Bond Act of 2014	Housing for Veterans Finance Committee		
Water Conservation and Water Quality Bond Law of 1986	Water Conservation and Water Quality Finance Committee		
Water Conservation Bond Law of 1988	Water Conservation Finance Committee		
Water Quality, Supply, and Infrastructure Improvement Act of 2014	Water Quality, Supply, and Infrastructure Improvement Finance Committee		
Water Security, Clean Drinking Water, Coastal and Beach Protection Act of 2002	Water Security, Clean Drinking Water, Coastal and Beach Protection Act of 2002 Finance Committee		

Refunding Bonds. The Refunding Bonds are being issued to (i) current or advance refund certain of the State's general obligation bonds for debt service savings and (ii) pay certain costs of issuance of the Refunding Bonds. The Refunding Bonds are being issued as ______________ (___) series under __________ (___) Bond Acts, each authorized by the voters, as set forth below.

A portion of the proceeds of the Refunding Bonds, after payment of costs of issuance, will be used to current refund or advance refund bonds which were issued to finance or refinance capital facilities or other voter-approved costs for public purposes, including: correctional facilities; parks and recreation, clean water and clean air; reading and literacy improvement and public libraries; safe drinking water; children's hospitals; earthquake safety and public building rehabilitation; public primary, secondary, community college and university education facilities; highway safety, traffic reduction, air quality and port security; transportation; housing and emergency shelters; clean water, watershed protection and flood protection; water security, water quality, water supply and river, coastal and beach protection; water conservation; medical research; seismic retrofit; veterans' homes; disaster preparedness and flood prevention; wildlife, coastal and parkland conservation; local rail projects; and voting modernization, pursuant to the Bond Acts identified below.

* Preliminary, subject to change.

Bond Act*	Finance Committee*	Series Designation	Amount ($)
1988 School Facilities Bond Act	State School Building Finance Committee		
1990 School Facilities Bond Act	State School Building Finance Committee		
1992 School Facilities Bond Act	State School Building Finance Committee		
California Clean Water, Clean Air, Safe Neighborhood Parks, and Coastal Protection Act of 2002	California Clean Water, Clean Air, Safe Neighborhood Parks, and Coastal Protection Act Finance Committee		
California Library Construction and Renovation Bond Act of 1988	California Library Construction and Renovation Finance Committee		
California Park and Recreational Facilities Act of 1984	Parklands Program Finance Committee		
California Reading and Literacy Improvement and Public Library Construction and Renovation Bond Act of 2000	California Library Construction and Renovation Finance Committee		
California Safe Drinking Water Bond Law of 1976	Safe Drinking Water Finance Committee		
California Safe Drinking Water Bond Law of 1988	California Safe Drinking Water Finance Committee		
California Stem Cell Research and Cures Bond Act of 2004	California Stem Cell Research and Cures Finance Committee		
California Water Resources Development Bond Act	California Water Resources Development Finance Committee		
California Wildlife, Coastal, and Park Land Conservation Act	California Wildlife, Coastal, and Park Land Conservation Program of 1988 Finance Committee		
Children’s Hospital Bond Act of 2004	Children’s Hospital Bond Act Finance Committee		
Children’s Hospital Bond Act of 2008	Children’s Hospital Bond Act Finance Committee		
Class Size Reduction Kindergarten-University Public Education Facilities Bond Act of 1998	State School Building Finance Committee		
Class Size Reduction Kindergarten-University Public Education Facilities Bond Act of 1998	Higher Education Facilities Finance Committee		
Clean Air and Transportation Improvement Bond Act of 1990	Transportation Improvement Finance Committee		
Clean Water and Water Reclamation Bond Law of 1988	Clean Water and Water Reclamation Finance Committee		
County Correctional Facility Capital Expenditure and Youth Facility Bond Act of 1988	1988 County Correctional Facility Capital Expenditure and Youth Facility Finance Committee		
Disaster Preparedness and Flood Prevention Bond Act of 2006	Disaster Preparedness and Flood Prevention Bond Finance Committee		

* Preliminary, subject to change.

Bond Act*	Finance Committee*	Series Designation	Amount ($)
Earthquake Safety and Public Buildings Rehabilitation Bond Act of 1990	Earthquake Safety and Public Buildings Rehabilitation Finance Committee		
Higher Education Facilities Bond Act of 1988	Higher Education Facilities Finance Committee		
Higher Education Facilities Bond Act of June 1990	Higher Education Facilities Finance Committee		
Higher Education Facilities Bond Act of June 1992	Higher Education Facilities Finance Committee		
Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006	Highway Safety, Traffic Reduction, Air Quality, and Port Security Committee		
Housing and Emergency Shelter Trust Fund Act of 2002	Housing Finance Committee		
Housing and Emergency Shelter Trust Fund Act of 2006	Housing Finance Committee		
Housing and Homeless Bond Act of 1990	Housing Committee		
Kindergarten-University Public Education Facilities Bond Act of 2002	Higher Education Facilities Finance Committee		
Kindergarten-University Public Education Facilities Bond Act of 2002	State School Building Finance Committee		
Kindergarten-University Public Education Facilities Bond Act of 2004	Higher Education Facilities Finance Committee		
Kindergarten-University Public Education Facilities Bond Act of 2004	State School Building Finance Committee		
Kindergarten-University Public Education Facilities Bond Act of 2006	State School Building Finance Committee		
Kindergarten-University Public Education Facilities Bond Act of 2006	Higher Education Facilities Finance Committee		
New Prison Construction Bond Act of 1988	1988 Prison Construction Committee		
New Prison Construction Bond Act of 1990	1990 Prison Construction Committee		
Passenger Rail and Clean Air Bond Act of 1990	Passenger Rail Finance Committee		
Public Education Facilities Bond Act of 1996	State School Building Finance Committee		
Public Education Facilities Bond Act of 1996	Higher Education Facilities Finance Committee		
Safe, Clean, Reliable Water Supply Act	Safe, Clean, Reliable Water Supply Finance Committee		
Safe Drinking Water, Clean Water, Watershed Protection, and Flood Protection Act	Safe Drinking Water, Clean Water, Watershed Protection, and Flood Protection Finance Committee		
Safe Drinking Water, Water Quality and Supply, Flood Control, River and Coastal Protection Bond Act of 2006	Safe Drinking Water, Water Quality and Supply, Flood Control, River and Coastal Protection Finance Committee		

* Preliminary, subject to change.

Bond Act*	Finance Committee*	Series Designation	Amount ($)
Safe Neighborhood Parks, Clean Water, Clean Air, and Coastal Protection Bond Act of 2000 (the Villaraigosa-Keeley Act)	Safe Neighborhood Parks, Clean Water, Clean Air, and Coastal Protection (Villaraigosa-Keeley Act) Finance Committee		
Safe, Reliable High-Speed Passenger Train Bond Act for the 21st Century (Only projects to be funded pursuant to Section 2704.095 of the California Streets and Highways Code)	High-Speed Passenger Train Finance Committee		
School Facilities Bond Act of 1990	State School Building Finance Committee		
School Facilities Bond Act of 1992	State School Building Finance Committee		
Seismic Retrofit Bond Act of 1996	Seismic Retrofit Finance Committee		
Veterans Homes Bond Act of 2000	Veterans Home Finance Committee		
Veterans Housing and Homeless Prevention Bond Act of 2014	Housing for Veterans Finance Committee		
Voting Modernization Bond Act of 2002 (Shelley-Hertzberg Act)	Voting Modernization Finance Committee		
Water Conservation and Water Quality Bond Law of 1986	Water Conservation and Water Quality Finance Committee		
Water Conservation Bond Law of 1988	Water Conservation Finance Committee		
Water Quality, Supply, and Infrastructure Improvement Act of 2014	Water Quality, Supply, and Infrastructure Improvement Finance Committee		
Water Security, Clean Drinking Water, Coastal and Beach Protection Act of 2002	Water Security, Clean Drinking Water, Coastal and Beach Protection Act of 2002 Finance Committee		

Plan of Refunding*

The State will deposit a portion of the net proceeds of the sale of the Refunding Bonds in the amount of $__________ (representing principal and unpaid accrued interest to the redemption date of the Current Refunded Bonds (defined below)) into the refunding escrow fund of the State Treasury established pursuant to Section 16784 of the California Government Code (the "Refunding Escrow Fund") to current refund $___________ of selected maturities of outstanding State general obligation bonds (the "Current Refunded Bonds") on their respective redemption dates. The Current Refunded Bonds will be repaid within 90 days of the issuance of the Refunding Bonds so as to constitute a "current refunding" for federal tax purposes. Amounts in the Refunding Escrow Fund for the Current Refunded Bonds will be invested in the State Surplus Money Investment Fund, which is a portion of the State's Pooled Money Investment Account, described in APPENDIX A—"THE STATE OF CALIFORNIA—INVESTMENT OF STATE FUNDS." See "VERIFICATION OF MATHEMATICAL COMPUTATIONS."

* Preliminary, subject to change.

The State will also deposit a portion of the net proceeds of the sale of the Refunding Bonds in the amount of $____________ (representing principal and unpaid accrued interest to the applicable redemption dates of the Advance Refunded Bonds (defined below)) into the Refunding Escrow Fund to advance refund $___________ of selected maturities of outstanding State general obligation bonds (the "Advance Refunded Bonds" and together with the Current Refunded Bonds, the "Refunded Bonds") on their respective redemption dates. Amounts in the Refunding Escrow Fund for the Advance Refunded Bonds initially will be invested in the State Surplus Money Investment Fund and may later, at the sole discretion of the State Treasurer, be invested in United States Treasury securities. See "VERIFICATION OF MATHEMATICAL COMPUTATIONS."

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

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

Following delivery of the Refunding Bonds, the State Treasurer plans to request that Standard & Poor's CUSIP Global Services provide separate CUSIP numbers for any Advance Refunded Bond maturities which are partially refunded, and to ask DTC to allocate by lot those maturities between refunded and non-refunded bonds, if applicable (see Exhibit 1). DTC, in turn, is to then notify its Direct Participants of the resulting status of such Bonds. See APPENDIX B—"DTC AND THE BOOK-ENTRY SYSTEM."

Redemption

Optional Redemption.[*] The Bonds maturing on or before August 1, 202__ are not subject to redemption prior to their stated maturity dates. The Bonds maturing after August 1, 202__, are subject to optional redemption prior to their respective stated maturity dates, in whole or in part, in such order of maturity as may be designated by the State Treasurer and by lot within any maturity, on any date on or after August 1, 202__, at a redemption price equal to 100% of the principal amount thereof to be redeemed, plus accrued interest to the date fixed for redemption, without premium.

Sinking Fund Redemption.[*] The Construction Bonds maturing on August 1, 20__, are subject to redemption prior to their stated maturity date, in part, by lot, from sinking fund payments made by the State, at a redemption price of 100% of the principal amount thereof plus accrued interest to the sinking fund payment date fixed for redemption, without premium, on August 1 of the years, and in the amounts, designated below:

[*] Preliminary, subject to change.

Sinking Fund Payment Date (August 1)	Principal Amount Redeemed

† Maturity

Adjustment of Sinking Fund Payments Upon Partial Optional Redemption. If one or more maturities of the Construction Bonds subject to sinking fund redemption (the "Term Bonds") are called for optional redemption in part (see "Redemption—*Optional Redemption*" above), the remaining sinking fund installments for the Term Bonds of such maturity or maturities shall be adjusted as determined by the State Treasurer.

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

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

Amendments to Resolutions or Bonds

The State or the State Treasurer may at any time modify or amend any of the Resolutions or any supplemental certificate setting forth the terms of the Bonds, respectively, with respect to any outstanding Bonds and may amend such outstanding Bonds and the rights and obligations of the Bondholders of such outstanding Bonds and of the State, without notice to or the consent of any Bondholder, but only to make such provisions for the purpose of (i) curing any ambiguity or curing, correcting or supplementing any defective provision contained in a Resolution or such supplemental certificate or (ii) complying with requirements of the Internal Revenue Code of 1986, as amended (the "Code"), in order to satisfy the covenants of the State set forth in each Resolution relating to maintaining the tax exemption of interest on the Bonds; in each case as the applicable finance committee or the State Treasurer, respectively, may deem necessary or desirable, and which shall not adversely affect the interests of the Bondholders of the affected Bonds.

Refunding of Bonds

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

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

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

ESTIMATED ANNUAL DEBT SERVICE REQUIREMENTS

Construction Bonds. The following table sets forth the estimated amounts required to be made available for the payment of principal (whether at maturity or by sinking fund payments), interest and the total payments due on the Construction Bonds.

Fiscal Year Ended June 30	Construction Bonds Principal	Interest	Fiscal Year Total Debt Service
2016	$	$	$
2017			
2018			
2019			
2020			
2021			
2022			
2023			
2024			
2025			
2026			
2027			
2028			
2029			
2030			
2031			
2032			
2033			
2034			
2035			
2036			
2037			
2038			
2039			
2040			
2041			
2042			
2043			
2044			
2045			
2046			
Total	**$**	**$**	**$**

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

Fiscal Year Ended June 30	Refunding Bonds Principal	Interest	Fiscal Year Total Debt Service
2016	$	$	$
2017			
2018			
2019			
2020			
2021			
2022			
2023			
2024			
2025			
2026			
2027			
2028			
2029			
2030			
2031			
2032			
2033			
2034			
2035			
2036			
Total	**$**	**$**	**$**

For additional information regarding debt service payment obligations of the State, see APPENDIX A—"THE STATE OF CALIFORNIA—STATE DEBT TABLES."

LEGAL MATTERS

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

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

TAX MATTERS

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

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

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

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

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

Current and future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the Bonds to be subject, directly or indirectly, in whole or in part, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent Beneficial Owners from realizing the full current benefit of the tax status of such interest. For example, the Obama Administration's budget proposals in recent years have proposed legislation that would limit the exclusion from gross income of interest on the Bonds to some extent for high-income individuals. The introduction or enactment of any such legislative proposals or clarification of the Code or court decisions may also affect, perhaps significantly, the market price for, or marketability of, the Bonds. Prospective purchasers of the Bonds should consult their own tax advisors regarding the potential impact of any pending or proposed federal or state tax legislation, regulations or litigation, as to which Bond Counsel is expected to express no opinion.

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

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

LITIGATION

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

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

UNDERWRITING

The Bonds are being purchased by an underwriting group consisting of the underwriters listed on the cover page hereof (the "Underwriters"). J.P. Morgan Securities LLC and Morgan Stanley & Co. LLC are acting as the representatives of the Underwriters with respect to the Bonds.

The Underwriters have agreed to purchase the Bonds for an aggregate purchase price of $____________ (representing the principal amount of the Construction Bonds and the Refunding Bonds of $___________, plus net original issue premium of $________, less an Underwriters' discount of $___________). The initial public offering prices of the Bonds may be changed from time to time by the Underwriters.

The bond purchase contract relating to the Bonds (the "Bond Purchase Contract") provides that (i) the Underwriters will purchase all (but not less than all) of the Construction Bonds and the Refunding Bonds, and (ii) the obligations to make such purchases are subject to certain terms and conditions set forth in such Bond Purchase Contract including, among others, the approval of certain legal matters by counsel.

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

FINANCIAL STATEMENTS

The Audited Basic Financial Statements of the State of California for the Year Ended June 30, 2014 (the "Financial Statements") are included as APPENDIX F to this Official Statement. These Financial Statements have been examined by the State Auditor to the extent indicated in her report.

Certain unaudited financial information for the periods July 1, 2014 through June 30, 2015 and July 1, 2015 through July 31, 2015 are included as Exhibit 2 to Appendix A to this Official Statement. See APPENDIX A—"THE STATE OF CALIFORNIA—FINANCIAL STATEMENTS."

RATINGS

All of the Bonds have received ratings of "Aa3" by Moody's Investors Service, "AA-" by Standard & Poor's Rating Services and "A+" by Fitch Ratings. An explanation of the significance and status of such credit ratings may be obtained from the rating agencies furnishing the same. There is no assurance that such ratings will continue for any given period of time or that they will not be revised or withdrawn entirely by any such rating agencies if, in their respective judgments, circumstances so warrant. Any revision or withdrawal of a credit rating could have an effect on the market prices and marketability of the Bonds. The State cannot predict the timing or impact of future actions by the rating agencies.

VERIFICATION OF MATHEMATICAL COMPUTATIONS

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

FINANCIAL ADVISOR

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

ADDITIONAL INFORMATION

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

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

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

STATE OF CALIFORNIA
JOHN CHIANG
Treasurer of the State of California

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EXHIBIT 1

POTENTIAL REFUNDED BONDS*

At any time prior to execution and delivery of the Bond Purchase Contract (defined above in the Official Statement under the heading "UNDERWRITING"), potential Refunded Bonds may be added or deleted. The Refunded Bonds will be selected based upon market conditions, bond structure or other factors at the time of pricing and the State Treasurer's internal guidelines for issuing general obligation refunding bonds. Selection of the Refunded Bonds is at the sole and absolute discretion of the State Treasurer. The State Treasurer intends to announce any changes to the following list of potential Refunded Bonds on the State Treasurer's website (http://www.treasurer.ca.gov/pos/pos.asp) (the "State Treasurer's Website") on or about August 27, 2015. The State Treasurer intends to announce the final list of Refunded Bonds on the State Treasurer's Website on or about September 1, 2015.

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

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

Dated Date of Prior Bonds	CUSIP† (1306)	Principal Amount to be Refunded ($)	Aggregate Principal Amount Outstanding ($)	Maturity Date	Interest Rate (%)	Redemption Date	Redemption Price (%)
5/1/2003	3CBB5		7,625,000	2/1/2032	5.000	10/9/2015	100
5/1/2003	3BX56		14,950,000	2/1/2033	5.000	10/9/2015	100
7/1/2003	3CBU3		10,000	2/1/2021	4.600	10/9/2015	100
7/1/2003	3CCM0		45,000	2/1/2026	4.400	10/9/2015	100
7/1/2003	3CCN8		10,000	2/1/2028	4.800	10/9/2015	100
7/1/2003	3CCT5		52,550,000	2/1/2033	5.000	10/9/2015	100
9/1/2005	2RRQ3		19,795,000	8/1/2016	5.000	10/9/2015	100
9/1/2005	2RRR1		17,515,000	8/1/2017	5.000	10/9/2015	100
9/1/2005	2RRS9		38,680,000	8/1/2018	5.000	10/9/2015	100
9/1/2005	2RRT7		45,150,000	8/1/2019	5.000	10/9/2015	100
9/1/2005	2RRU4		16,620,000	8/1/2020	5.000	10/9/2015	100
9/1/2005	3CQM5		47,050,000	8/1/2021	5.000	10/9/2015	100

* Preliminary, subject to change.

Dated Date of Prior Bonds	CUSIP† (1306)	Principal Amount to be Refunded ($)	Aggregate Principal Amount Outstanding ($)	Maturity Date	Interest Rate (%)	Redemption Date	Redemption Price (%)
9/1/2005	3CQN3		63,525,000	8/1/2022	5.000	10/9/2015	100
9/1/2005	2RRX8		52,470,000	8/1/2023	5.000	10/9/2015	100
9/1/2005	2RRY6		52,340,000	8/1/2024	5.000	10/9/2015	100
9/1/2005	2RRZ3		73,645,000	8/1/2025	5.000	10/9/2015	100
9/1/2005	2RSA7		51,660,000	8/1/2026	5.000	10/9/2015	100
9/1/2005	2RSB5		30,190,000	8/1/2027	5.000	10/9/2015	100
9/1/2005	2RSC3		48,935,000	8/1/2028	5.000	10/9/2015	100
9/1/2005	2RSD1		23,040,000	8/1/2029	4.550	10/9/2015	100
9/1/2005	2RSE9		22,830,000	8/1/2030	4.550	10/9/2015	100
12/1/2005	3CTR1		45,000,000	3/1/2035	4.750	3/1/2016	100
3/1/2006	2R3S5		15,100,000	3/1/2026	5.000	3/1/2016	100
3/1/2006	2R3W6		42,100,000	3/1/2031	4.375	3/1/2016	100
3/1/2006	2R3X4		90,300,000	3/1/2033	4.500	3/1/2016	100
3/1/2006	2R3Y2		64,200,000	3/1/2034	4.750	3/1/2016	100
3/1/2006	2R3Z9		67,500,000	3/1/2035	4.500	3/1/2016	100
3/1/2006	3CTS9		26,955,000	3/1/2036	4.500	3/1/2016	100
4/1/2006	3CTT7		34,200,000	9/1/2035	4.750	3/1/2016	100
6/1/2006	2TEF7		14,700,000	9/1/2017	5.000	9/1/2016	100
6/1/2006	2TEG5		30,800,000	9/1/2026	5.000	9/1/2016	100
6/1/2006	2TEH3		27,100,000	9/1/2027	5.000	9/1/2016	100
6/1/2006	2TEJ9		25,700,000	9/1/2028	5.000	9/1/2016	100
6/1/2006	2TEK6		26,700,000	9/1/2029	5.000	9/1/2016	100
6/1/2006	2TEL4		44,400,000	9/1/2030	5.000	9/1/2016	100
6/1/2006	2TEM2		49,700,000	9/1/2031	5.000	9/1/2016	100
6/1/2006	2TEN0		56,500,000	9/1/2032	5.000	9/1/2016	100
6/1/2006	2TEP5		65,300,000	9/1/2033	5.000	9/1/2016	100
6/1/2006	2TEQ3		155,400,000	9/1/2035	5.000	9/1/2016	100
9/1/2006	2TPB4		30,900,000	9/1/2017	5.000	9/1/2016	100
9/1/2006	2TPC2		34,300,000	9/1/2018	5.000	9/1/2016	100
9/1/2006	2TPD0		35,100,000	9/1/2019	5.000	9/1/2016	100
9/1/2006	2TPE8		28,200,000	9/1/2020	5.000	9/1/2016	100
9/1/2006	2TPF5		22,600,000	9/1/2021	5.000	9/1/2016	100
9/1/2006	2TPG3		12,100,000	9/1/2022	4.250	9/1/2016	100
9/1/2006	2TPH1		12,300,000	9/1/2023	5.000	9/1/2016	100
9/1/2006	2TPJ7		13,500,000	9/1/2024	5.000	9/1/2016	100
9/1/2006	2TPK4		17,100,000	9/1/2025	5.000	9/1/2016	100
9/1/2006	2TPL2		16,800,000	9/1/2026	4.250	9/1/2016	100
9/1/2006	2TPM0		23,500,000	9/1/2027	5.000	9/1/2016	100
9/1/2006	2TPN8		20,700,000	9/1/2028	5.000	9/1/2016	100
9/1/2006	2TPP3		20,200,000	9/1/2029	5.000	9/1/2016	100
9/1/2006	2TPQ1		21,900,000	9/1/2030	4.750	9/1/2016	100

* Preliminary, subject to change.

 CUSIP numbers have been assigned by an independent company not affiliated with the State and are included solely for the convenience of the registered owners of the applicable Bonds. The State is not responsible for the selection or uses of these CUSIP numbers, and no representation is made as to their correctness on the applicable Bonds or as included herein. The CUSIP number for a specific maturity is subject to being changed after the issuance of the Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of certain maturities of the Bonds.

Dated Date of Prior Bonds	CUSIP† (1306)	Principal Amount to be Refunded ($)	Aggregate Principal Amount Outstanding ($)	Maturity Date	Interest Rate (%)	Redemption Date	Redemption Price (%)
9/1/2006	2TPR9		29,100,000	9/1/2031	5.000	9/1/2016	100
9/1/2006	2TPS7		30,300,000	9/1/2032	5.000	9/1/2016	100
9/1/2006	2TPT5		37,800,000	9/1/2033	4.500	9/1/2016	100
9/1/2006	2TPU2		149,900,000	9/1/2036	4.500	9/1/2016	100
11/1/2006	2TRS5		20,900,000	10/1/2017	5.000	10/1/2016	100
11/1/2006	2TRT3		33,400,000	10/1/2018	5.000	10/1/2016	100
11/1/2006	2TRU0		34,500,000	10/1/2019	5.000	10/1/2016	100
11/1/2006	2TRV8		7,300,000	10/1/2020	4.000	10/1/2016	100
11/1/2006	2TRW6		21,300,000	10/1/2022	5.000	10/1/2016	100
11/1/2006	2TRX4		24,100,000	10/1/2023	5.000	10/1/2016	100
11/1/2006	2TRY2		11,200,000	10/1/2026	4.500	10/1/2016	100
11/1/2006	2TRZ9		31,600,000	10/1/2028	4.750	10/1/2016	100
11/1/2006	2TSA3		72,300,000	10/1/2031	4.500	10/1/2016	100
11/1/2006	2TSB1		233,500,000	10/1/2036	4.500	10/1/2016	100

* Preliminary, subject to change.

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APPENDIX A

THE STATE OF CALIFORNIA

August 19, 2015

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INTRODUCTION TO APPENDIX A

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

APPENDIX A is divided into two Parts. PART I contains information about the current state budget and economic forecasts, including an identification of certain Recent Developments since the state's last Official Statement. As the state (including certain of its agencies) issues a number of bonds before the end of 2015, PART I of APPENDIX A will be updated as needed to provide the most current information. PART II of APPENDIX A (including EXHIBIT 1—PENSION SYSTEMS) contains information on the basic structure of the state's finances, including details on revenues, expenditures and reserves, cash management, outstanding indebtedness and other information. The information in PART II will typically be updated twice a year, at the time of the release of the Governor's Budget in January and following enactment of the annual budget in July. The latter update will include revenue and economic forecasts presented in the Governor's May Revision of his original January budget proposal. In the event there are material changes to the information contained in PART II after each January/July update, such information will be highlighted in the "Recent Developments" section of PART I in the next version of APPENDIX A, and the updated material will be clearly identified within PART II, such as by use of italics.

The principal of and interest on the securities described in the Official Statement are payable either primarily or secondarily from moneys deposited in, or available for transfer to, the General Fund as more particularly described in the front part of the Official Statement and in Appendix A. Accordingly, information concerning the state's finances that does not significantly impact the availability of moneys deposited in, or available for transfer to, the General Fund or the expenditure of such moneys, and material risks related thereto, may not be included in Appendix A or if included may not be described in detail (e.g., the California Air Resources Board's cap and trade program).

This APPENDIX A is provided specifically for use in connection with the sale of securities described in this Official Statement. APPENDIX A may not be copied or used by any person for any other purpose or in connection with the sale of any other securities without the express written permission of the State Treasurer.

PART I

OVERVIEW

Population and Economy of the State

California is by far the most populous state in the nation, nearly 50 percent larger than the second-ranked state according to the 2010 United States Census. The July 2015 estimate of

California's population is 38.9 million residents, which is 12 percent of the total United States population.

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

Demographic and economic statistical information and a discussion of economic assumptions are included in this APPENDIX A under "CURRENT STATE BUDGET—Economic Assumptions Underlying the 2015 Budget Act" and "ECONOMY AND POPULATION."

Financial Condition of the State General Fund

The state's fiscal health has significantly improved since the end of the severe recession in 2009. Voters approved Proposition 30 in November 2012, providing increased revenues through December 31, 2018. Voters also approved Proposition 2 in November 2014, which directs specified revenues towards increasing reserves in the Budget Stabilization Account ("BSA"), the state's rainy day fund, and paying down specified debts. See "DEBTS AND LIABILITIES UNDER PROPOSITION 2" and "STATE FINANCES—REVENUES, EXPENDITURES AND RESERVES—Budget Reserves – *Budget Stabilization Account*." In recent years, the state has paid off billions of dollars of budgetary borrowings, debts and deferrals which were accumulated in order to balance budgets during the previous recession and years prior. See "CURRENT STATE BUDGET—Multi-Year Budget Projections."

By the end of fiscal year 2015-16, the BSA is projected to have a balance of $3.5 billion. Under the Proposition 2 requirements, the 2015 Budget Act directs an additional $1.9 billion to pay off loans from special funds, pay down past liabilities from Proposition 98, and help the University of California reduce its employee pension unfunded liability.

In addition, the 2015-16 Budget repays the remaining $1 billion in budgetary deferrals to schools and community colleges, discharges the last of the $15 billion in Economic Recovery Bonds that were issued to cover budget deficits from as far back as 2002, repays local governments $765 million in mandated reimbursements, and reduces outstanding mandate liabilities owed to schools and community colleges by $3.8 billion.

Despite the recent significant budgetary improvements, there remain a number of budget risks that threaten the state's financial condition, including the significant unfunded liabilities of the two main retirement systems managed by state entities, the California Public Employees' Retirement System ("CalPERS") and the California State Teachers' Retirement System ("CalSTRS"). In recent years, the state has committed to significant increases in annual payments to these systems to reduce the unfunded liabilities. The state also has a significant unfunded liability with respect to other post-employment benefits. See "CURRENT STATE BUDGET—Budget Risks" and "STATE FINANCES—OTHER ELEMENTS—Retiree Health Care Costs."

In addition, the state's revenues (particularly the personal income tax) can be volatile and correlate to overall economic conditions. See "STATE FINANCES—REVENUES, EXPENDITURES AND RESERVES—Sources of Tax Revenue." Under Proposition 2, upswings in personal income taxes derived from capital gains will be deposited in the BSA and used to pay off certain of the state's debts and liabilities. However, during the last recession the state experienced a significant economic downturn and state tax revenues declined precipitously, resulting in budget deficits in the tens of billions of dollars. There can be no assurances that the state will not face fiscal stress and cash pressures again, or that other changes in the state or national economies will not materially adversely affect the financial condition of the state.

General Fund Revenues, Expenditures and Cash Management

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

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

For the General Fund, the 2015 Budget Act and related legislation (the "2015-16 Budget") appropriates \$115.4 billion in expenditures, projects \$117.4 billion in resources (\$115.0 billion revenues and transfers and a \$2.4 billion fund balance carried over from fiscal year 2014-15). The 2015 Budget Act projects total budget reserves of \$4.6 billion at the end of fiscal year 2015-16, consisting of \$1.1 billion in the Special Fund for Economic Uncertainties ("SFEU") and \$3.5 billion in the BSA See "CURRENT STATE BUDGET" and "STATE FINANCES – REVENUES, EXPENDITURES AND RESERVES – Budget Reserves."

Over the years, a number of laws and constitutional amendments have been enacted, often through voter initiatives, which have made it more difficult for the state to raise taxes, restricted the use of the General Fund or special fund revenues, or otherwise limited the Legislature and the Governor's discretion in enacting budgets. See "STATE FINANCES – REVENUES, EXPENDITURES AND RESERVES – Restrictions on Raising or Using General Fund Revenues."

The state manages its cash flow requirements during the fiscal year primarily with a combination of external borrowing and internal borrowing by the General Fund from over 700 special funds. Since June 2008, the General Fund has typically ended each fiscal year with a net borrowing from special funds but starting in fiscal year 2013-14 the state has ended each fiscal year with a positive General Fund balance and no outstanding internal loans from special funds. The General Fund balance was $1.9 billion at June 30, 2014 and $2.5 billion at June 30, 2015. The 2015 Budget Act projects the state will not have any need to use external cash flow borrowing in fiscal year 2015-16. See "CASH MANAGEMENT – Traditional Cash Management Tools – *External Borrowing*" for a description of the priority of payment of the state's obligations, including the repayment of external and internal borrowing and see also "CASH MANAGEMENT – Inter-Fund Borrowings."

Because the debt service on the securities offered in the Official Statement is payable primarily or secondarily from moneys in the General Fund, the financial information contained in this APPENDIX A will relate principally to revenues and expenditures of, or moneys available for transfer to, the General Fund and risks associated with such factors.

State Indebtedness and Other Obligations

As of July 1, 2015, the state had more than $87.0 billion of outstanding general obligation bonds and lease revenue bonds payable principally from the state's General Fund or from lease payments paid from the operating budget of the respective lessees, which operating budgets are primarily, but not exclusively, derived from the General Fund. As of July 1, 2015, there was more than $30 billion of authorized and unissued long-term voter-approved general obligation bonds which, when issued, will be payable principally from the General Fund and approximately $4.0 billion of authorized and unissued lease-revenue bonds. See "STATE INDEBTEDNESS AND OTHER OBLIGATIONS – Future Issuance Plans; General Fund Debt Ratio."

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

The state has always paid when due the principal of and interest on its general obligation bonds, general obligation commercial paper notes, lease-revenue obligations and short-term obligations, including revenue anticipation notes and revenue anticipation warrants.

Detailed information regarding the state's long-term debt appears in the sections "STATE INDEBTEDNESS AND OTHER OBLIGATIONS" and "STATE DEBT TABLES."

State Pension Systems and Retiree Health Care Costs

The two main state pension funds (CalPERS and CalSTRS) each face unfunded future liabilities in the tens of billions of dollars. General Fund contributions to CalPERS and CalSTRS are estimated to be approximately $2.9 billion and $1.9 billion, respectively, for fiscal year 2015-16. The combined contributions, which include contributions for California State University

("CSU"), represent about 4.2 percent of all General Fund expenditures in fiscal year 2015-16. See "CURRENT STATE BUDGET."

Recent legislation with respect to both CalPERS and CalSTRS and changes in actuarial assumptions and funding methodologies are expected to result in significant annual increases in the amount the state is required to pay. The actual amount of any increases will depend on a variety of factors, including but not limited to, investment returns, actuarial assumptions, experience and retirement benefit adjustments. See EXHIBIT 1 – "PENSION SYSTEMS – Prospective Funding Status; Future Contributions."

The state also provides retiree health care and dental benefits to retired state employees and their spouses and dependents (when applicable) and almost exclusively utilizes a "pay-as-you-go" funding policy. These benefits are referred to as "Other Post-Employment Benefits" or "OPEB." As reported in the state's OPEB Actuarial Valuation Report, the state has an Actuarial Accrued Liability "AAL" relating to OPEB estimated at $71.81 billion as of June 30, 2014, of which $71.77 billion is unfunded (as compared to $64.57 billion estimated as of June 30, 2013).

In 2015, the Administration initiated a comprehensive strategy to eliminate the OPEB unfunded AAL over approximately 30 years with increased prefunding shared equally between state employers and employees. The Administration is pursuing the prefunding strategy, as well as changes to retiree health benefits for new employees, through the collective bargaining process. Statutory language passed as part of the 2015-16 Budget contains the funding policy and framework designed to support the elimination of the unfunded AAL. See "STATE FINANCES—OTHER ELEMENTS – Retiree Health Care Costs—*Ongoing Efforts*."

Financial Statements

APPENDIX F to this Official Statement, which is incorporated into this APPENDIX A, contains the Audited Basic Financial Statements of the state for the year ended June 30, 2014, together with certain information required by governmental accounting and financial reporting standards to be included in the Financial Statements, including a "Management's Discussion and Analysis" that describes and analyzes the financial position of the state and provides an overview of the state's activities for the fiscal year ended June 30, 2014.

In addition, EXHIBIT 2 to APPENDIX A contains the State Controller's unaudited reports of General Fund cash receipts and disbursements for the period July 1, 2014 through June 30, 2015 and July 1 through July 31, 2015.

Certain Defined Terms

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

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

"BSA" or "Budget Stabilization Account" means the Budget Stabilization Account created under Proposition 58 and amended by Proposition 2. See "STATE FINANCES—REVENUES, EXPENDITURES AND RESERVES – Budget Reserves."

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

"EXHIBIT 2" means the State Controller's Unaudited Statement of General Fund Cash Receipts and Disbursements for the period from July 1, 2014 through June 30, 2015 and July 1, 2015-July 31, 2015 as attached to this APPENDIX A as EXHIBIT 2.

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

"PMIA" means the state's Pooled Money Investment Account.

"Proposition 2" means a legislative constitutional amendment that amends the provisions governing the BSA, which was approved by the voters in the November 2014 statewide general election. See "STATE FINANCES—REVENUES, EXPENDITURES AND RESERVES—Budget Reserves."

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

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

"2014-15 Budget" means the 2014 Budget Act plus related legislation to implement the budget.

"2014 Budget Act" means the Budget Act for fiscal year 2014-15, adopted on June 20, 2014.

"2014-15 Governor's Budget" means the Governor's Budget for fiscal year 2014-15 released on January 9, 2014.

"2014-15 May Revision" means the May Revision of the 2014-15 Governor's Budget released on May 13, 2014.

"2015-16 Budget" means the 2015 Budget Act plus related legislation to implement the budget.

"2015 Budget Act" means the Budget Act for fiscal year 2015-16, adopted on June 24, 2015.

"2015-16 Governor's Budget" means the Governor's Budget for fiscal year 2015-16 released on January 9, 2015.

"2015-16 May Revision" means the May Revision of the 2015-16 Governor's Budget released on May 14, 2015.

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

RECENT DEVELOPMENTS

The following are certain significant recent developments concerning the state:

The 2015 Budget Act. On June 24, 2015, the Governor signed the 2015 Budget Act for fiscal year 2015-16 plus related legislation to implement the budget. The budget continues to pay down debts and liabilities and builds a healthier reserve fund as it implements the first year of Proposition 2. In addition, it increases spending on education, healthcare and In-Home Support Services. See "CURRENT STATE BUDGET."

Recent Cash Receipts. In July 2015, the Department of Finance reported that, based on agency cash receipts, tax receipts for June 2015 totaled $16.968 billion, or $815 million (5.1 percent) above the 2015 Budget Act estimate of $16.093 billion, led by personal income tax receipts of $737 million (7.2 percent) above the estimate. Cash receipts for fiscal year 2014-15 ended $732 million (0.6 percent) above the 2015 Budget Act estimate of $114.124 billion, which in turn was $5.8 billion higher than projected when the 2014 Budget Act was enacted.

In August 2015, the Department of Finance reported that, based on agency cash receipts, tax receipts for July 2015 totaled $6.682 billion, or $66 million (1.0 percent) above the 2015 Budget Act estimate of $6.616 billion.

Special Sessions on Transportation and Health Care. On June 16, 2015, the Governor called special legislative sessions to consider two fiscal issues: (1) funding improved maintenance of roads, highways and other infrastructure; and (2) funding the state's health care delivery system. In the infrastructure special session, the Legislature is considering legislation to enact permanent and sustainable funding to maintain and repair the state's transportation and critical infrastructure, improve the state's key trade corridors and complement local infrastructure efforts. In the health care special session, the Legislature is considering legislation to enact permanent and sustainable funding to provide at least $1.1 billion annually to stabilize the state's General Fund costs for Medi-Cal, sufficient funding to continue the restoration of the 7 percent of In-Home Supportive Services hours, and funding for additional rate increases for providers of Medi-Cal and developmental disability services. See "STATE FINANCES—REVENUES, EXPENDITURES AND RESERVES – State Expenditures – *Health and Human Services* – Special Session on Health Care Financing."

CURRENT STATE BUDGET

General

The 2015-16 Budget, including the 2015 Budget Act, was enacted on June 24, 2015. General Fund revenues and transfers for fiscal year 2015-16 are projected at $115.0 billion, an increase of $3.7 billion or 3.3 percent compared with revised estimates for fiscal year 2014-15. General Fund expenditures for fiscal year 2015-16 are projected at $115.4 billion, an increase of $0.9 billion or 0.8 percent compared with revised estimates for fiscal year 2014-15. The 2015-16

Budget also included special fund expenditures of $45.8 billion and bond fund expenditures of $6.5 billion.

The following Table 1 summarizes the General Fund resources and expenditures estimates for fiscal year 2014-15 as of the 2014 Budget Act and for fiscal years 2014-15 and 2015-16 as of the 2015 Budget Act. For more information on revised fiscal year 2014-15 estimates, see "Fiscal Year 2014-15 Revised Estimates in the 2015 Budget Act."

TABLE 1
General Fund Budget Summary
(Dollars in Millions)

	As of 2014 Budget Act	As of 2015 Budget Act	
	Fiscal Year 2014-15	Fiscal Year 2014-15	Fiscal Year 2015-16
Prior Year Balance	$ 3,903	$ 5,589	$ 2,423
Revenues and Transfers	105,488	111,307	115,033
Total Resources Available	$ 109,391	$ 116,896	$ 117,456
Non-Proposition 98 Expenditures	63,525	64,865	65,953
Proposition 98 Expenditures	44,462	49,608	49,416
Total Expenditures	$107,987	$ 114,473	$115,369
Fund Balance	1,404	2,423	2,087
Reserve for Liquidation of Encumbrances	955	971	971
Special Fund for Economic Uncertainties	449	1,452	1,116
Budget Stabilization Account/ Rainy Day Fund	$ 1,606	$ 1,606	$ 3,460

Source: State of California, Department of Finance.

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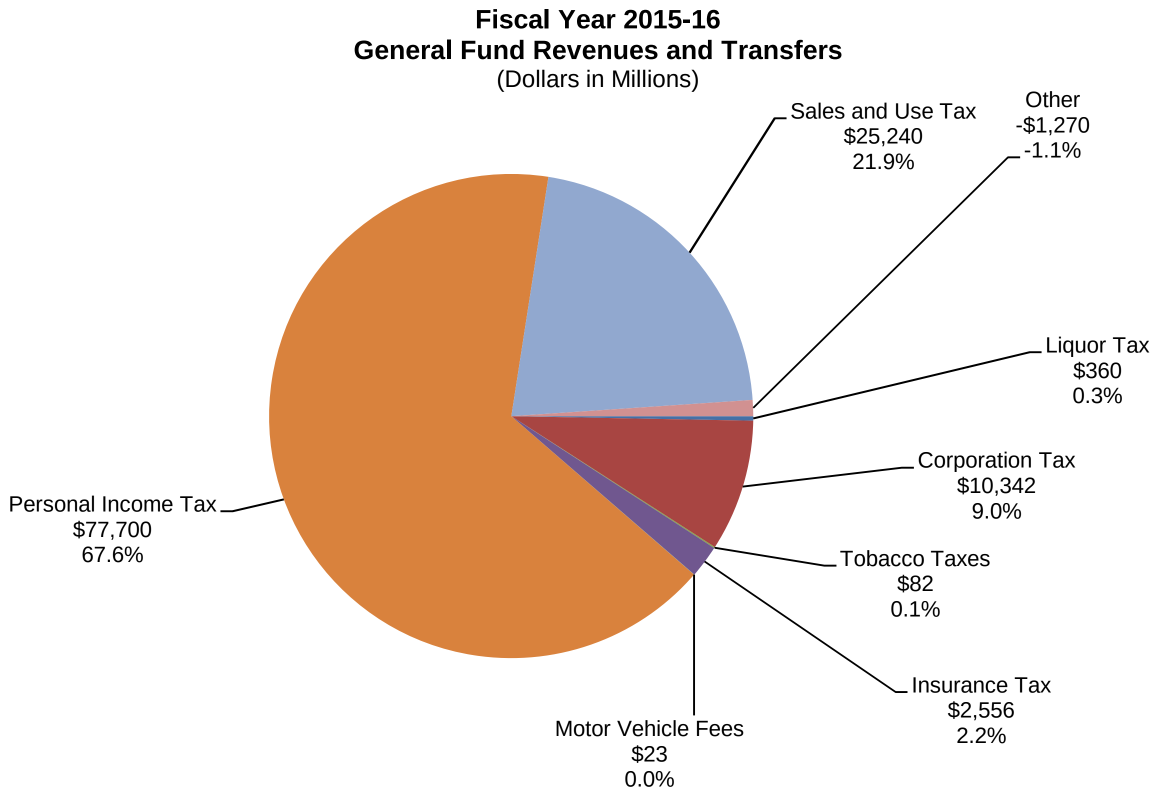
The following chart summarizes the principal revenue and transfer components of the 2015 Budget Act, as of its adoption. For further details, see "STATE FINANCES – REVENUES, EXPENDITURES AND RESERVES—Sources of Tax Revenue."



Note: The "Other" category is negative because it includes a transfer to the BSA of $1,854 million.

The 2015-16 Budget includes the following major General Fund expenditure components:

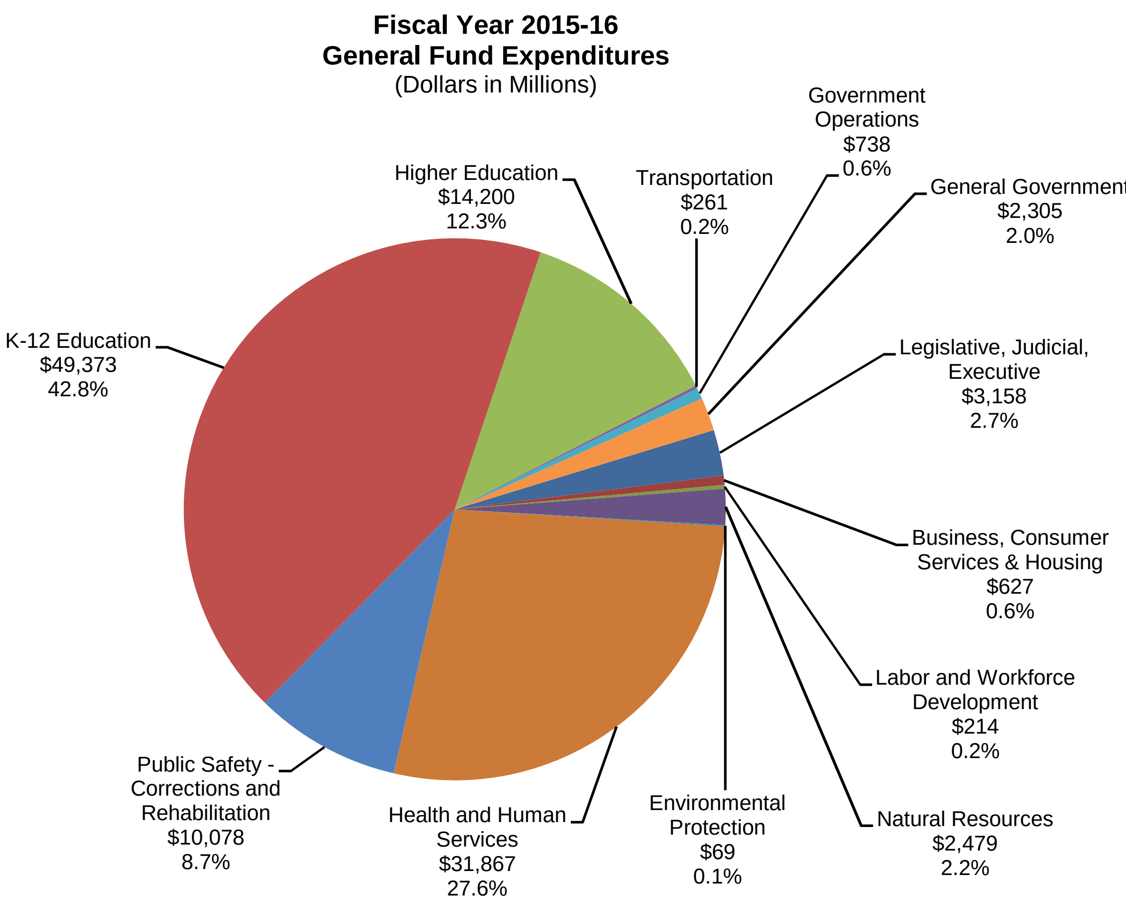
- K-12 Education – funding of $50.5 billion for fiscal year 2015-16, of which $49.4 billion is from the General Fund (both Non-Proposition 98 and Proposition 98), $0.103 billion is from special funds and $1.063 billion is from bond funds. See "STATE FINANCES—REVENUES, EXPENDITURES AND RESERVES – State Expenditures –K-12 Education."

- Higher Education – funding of $14.6 billion for fiscal year 2015-16, of which $14.2 billion is from the General Fund (both Non-Proposition 98 and Proposition 98 expenditures), $0.043 billion is from special funds and $0.390 billion is from bond funds, for the University of California, California State University and the community colleges. See "STATE FINANCES—REVENUES, EXPENDITURES AND RESERVES – State Expenditures – *Higher Education.*"

• Health and Human Services – funding of $52.3 billion for fiscal year 2015-16, of which $31.9 billion is from the General Fund and $20.4 billion is from special funds. See “STATE FINANCES—REVENUES, EXPENDITURES AND RESERVES—State Expenditures—*Health and Human Services*.”

• Public Safety – funding of $12.7 billion for fiscal year 2015-16, of which $10.1 billion is from the General Fund and $2.6 billion is from special funds for the Department of Corrections and Rehabilitation (“CDCR”) and other related programs. See “STATE FINANCES —REVENUES, EXPENDITURES AND RESERVES – State Expenditures – *Public Safety*.”

The following chart summarizes the principal expenditure components of the 2015 Budget Act, as of its adoption.



Note: The state’s expenditures for contributions to the pension funds (4.2 percent of total General Fund expenditures when combined) and for debt service on bonds (net of various reimbursements) payable from the General Fund (4.7 percent of total General Fund expenditures when combined) are not shown separately in this chart, but are included within the applicable expenditure categories in the chart.

Development of Revenue Estimates

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

After finalizing the forecasts of major national and California economic indicators, revenue estimates are generated using revenue forecasting models developed and maintained by the Department of Finance. With each forecast, adjustments are made for any legislative, judicial, or administrative changes, as well as for recent cash flow results. The forecast is updated twice a year and released with the Governor's Budget by January 10 and the May Revision by May 14. The economic forecast for the 2015-16 May Revision projects solid growth in both the national and state economies. Certain significant elements of the forecast are set forth in Table 2.

National Economy. The national economy continues to show improvement, with low inflation and the national unemployment rate declining. There are still risks to the economy. Economic expansions do not last forever. Since World War II, the average economic expansion length is almost five years and the longest expansion was ten years. The current economic expansion began in July 2009. There are few immediate signs of a contraction, but it would be an historical anomaly for the U.S. not to see another recession before 2020.

California Economy. California's real GDP increased by 2.8 percent in 2014, and totaled $2.3 trillion at current prices, keeping California as the eighth largest economy in the world. Most sectors have experienced solid growth, with the exception of the agricultural sector. Agricultural production totaled $46.7 billion out of $2.2 trillion in 2013 California GDP. At less than 3 percent of the total economy, declines in the agricultural sector due to drought are expected to be offset by growth in other sectors. California added jobs faster than the nation in 2013 and 2014. The California economy is expected to continue making solid progress.

California Drought. While the current drought is one of the most severe in California's history, it is not expected to significantly impact any sectors of the state economy beyond the agricultural sector. Further, some farmers were able to offset the effects of surface water shortfalls in 2014 through groundwater pumping, shifting crop patterns, and planting fewer acres – this was enough that farm employment increased modestly in 2014. A continuation of drought conditions in 2015 is expected to have more severe impacts on agriculture, as options for adjustment are more limited, and farm employment decreased by around 2 percent through May 2015. The State is facing severe drought conditions in all 58 counties. The Administration has taken actions to address drought conditions in California, including mandated statewide water conservation, facilitated water management where possible, and provided funding for critical water infrastructure projects, but these actions have not significantly impacted the General Fund.

Economic Assumptions Underlying the 2015 Budget Act

The revenue and expenditure assumptions utilized in connection with the 2015-16 May Revision were incorporated into the 2015 Budget Act and were based upon certain assumptions concerning the performance of the California, national, and global economies in calendar years 2015 and 2016. These economic assumptions are set forth below. Additional information on the state's economy is set out in the section "ECONOMY AND POPULATION."

TABLE 2
Selected National and California Economic Data

	2014	2015 (Projected)	2016 (Projected)
United States			
Real gross domestic product (percent change)	2.4	2.8	2.7
Personal income (percent change)	4.0	3.9	4.5
Nonfarm wage and salary employment (millions)	139.0	141.9	144.0
(percent change)	2.0	2.1	1.5
Housing starts (thousands)	1,001	1,121	1,308
(percent change)	7.6	12.1	16.6
California			
Personal income ($ billions)	1,944.4	2,037.8	2,144.1
(percent change)	4.7	4.8	5.2
Nonfarm wage and salary employment (thousands)	15,668.7	16,072.8	16,453.4
(percent change)	3.2	2.6	2.4
Unemployment rate (percent)	7.5	6.5	6.0
Housing units authorized (thousands)	86.3	99.3	110.6
(percent change)	0.4	15.0	11.5
Total taxable sales ($ billions)	618.6	645.1	679.6
(percent change)	5.4	4.3	5.3

Note: Percentage changes calculated from unrounded data.

Source: State of California, Department of Finance, 2015-16 May Revision forecast.

Budget Risks

The 2015-16 Budget is based on a variety of estimates and assumptions. If actual results differ from those assumptions, the state's financial condition could be adversely or positively affected. There can be no assurance that the financial condition of the state will not be materially and adversely affected by actual conditions or circumstances in fiscal year 2015-16 and beyond.

The overall budget risks are substantially lower than they were several years ago. However, the risks with potentially significant General Fund impact include, but may not be limited to, the following:

- Threat of Economic Recession — The economic forecast used in connection with the 2015 Budget Act assumes continued steady growth of the economy. While there are few signs of an immediate contraction, the Administration understands that another recession is inevitable. See "CURRENT STATE BUDGET—Development of Revenue Estimates."

- Federal Fiscal Challenges — As it has done in the past, the federal government could continue to shift its costs to the state in order to address its own fiscal challenges. It could also disapprove proposals in the health and human services areas that the state relies on as fiscal control measures. Changes in the federal government's policies may also drive state program costs up significantly.

- Capital Gains Volatility — Capital gains are the state's most volatile revenue source. Under Proposition 2, some of this volatility will be mitigated by requiring that spikes in capital gains be deposited in the BSA in anticipation of the next recession and to pay down the state's debts and liabilities. See "STATE FINANCES—REVENUES, EXPENDITURES AND RESERVES—Sources of Revenue – *Personal Income Tax*" and "– Budget Reserves."

- Redevelopment Dissolution — To increase funding for core local government services, the state dissolved redevelopment agencies beginning in 2012. Between fiscal year 2011-12 and fiscal year 2015-16, approximately $9.9 billion in property tax revenues, that previously would have been spent by redevelopment agencies, was redistributed to cities, counties, special districts, and schools. Approximately fifty percent of these property tax revenues accrue to K-14 schools which reduces the state's annual Proposition 98 General Fund costs. There are several pending lawsuits involving the dissolution of redevelopment agencies, which might impact these revenues and require the state to backfill any lost revenues for schools. See "LITIGATION—Budget-Related Litigation—Actions Challenging Statutes Which Reformed California Redevelopment Law." See 'STATE FINANCES—OTHER ELEMENTS—Local Government Impacts on State Finances."

- Health Care Costs — The Medi-Cal program is the budget's second largest expenditure. Additionally, the state provides health benefits to its own employees and retirees. As the state implements federal health care reform, budgetary spending will become even more dependent upon the rate of health care inflation. If this inflation rises faster than expected, annual General Fund spending could quickly rise by hundreds of millions of dollars. See "STATE FINANCES – REVENUES, EXPENDITURES AND RESERVES – State Expenditures – Health and Human Services."

- Debts and Liabilities — The state's budget challenges have been exacerbated by an unprecedented level of debts, deferrals, and budgetary obligations accumulated over the prior decade, although the state has paid down a substantial amount of these debts in the past three years. See "DEBTS AND LIABILITIES UNDER PROPOSITION 2." In addition, the state faces hundreds of billions of dollars in other long-term cost pressures, debts, and liabilities, including state retiree pension and health care costs. See "STATE FINANCES – OTHER ELEMENTS – Retiree Health Care Costs" and EXHIBIT 1 – "PENSION SYSTEMS."

Multi-Year Budget Projections

In connection with the enactment of the 2015 Budget Act, the Department of Finance prepared high level multi-year budget projections, as set forth below. The projections are based on current state and federal law and state policies assumed as part of the budget package. They reflect a variety of assumptions, including assumptions concerning economic conditions, and state revenues and expenditures. The projections do not include additional policy changes or proposals to address the budget deficit projected in fiscal year 2018-19. Under state law and the state constitution, the annual proposed Governor's Budget, the budget sent by the Legislature to the Governor for consideration, and the budget signed into law by the Governor cannot provide for projected expenditures in excess of projected resources for the ensuing fiscal year. This requirement does not apply to out year projections.

The year-to-year changes in revenues and transfers are driven, in general, by expected continued moderate economic growth. However, due largely to the strength of the stock market through the end of 2014, capital gains are expected to be above normal levels for 2015 and 2016. (Normal level is considered to be 4.4 percent of personal income in the state.) Tax revenue is expected to grow by 3.5 percent from fiscal year 2014-15 to fiscal year 2015-16, and by 4.3 percent from fiscal year 2015-16 to fiscal year 2016-17.

For fiscal years 2017-18 and 2018-19, the underlying tax revenue is projected to grow less than 3.5 percent a year. This relatively slow growth in total revenues can be attributed in large part to the expiration of Proposition 30 tax rates. The sales tax portion of Proposition 30 expires in on December 31, 2016 and the personal income tax portion of Proposition 30 expires on December 31, 2018. The other main factor explaining the year-to-year changes in revenues and transfers is the change in the amounts of loan repayments to special funds made each year consistent with the projections shown in Table 6 below. Actual conditions may differ materially from the assumptions, and there can be no assurances the projections will be achieved.

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

	Fiscal Year				
	2014-15	**2015-16**	**2016-17**	**2017-18**	**2018-19**
Prior Year Balance	$ 5,589	$ 2,423	$ 2,087	$ 1,743	$ 989
Revenues and Transfers[a]	112,913	116,887	121,791	125,873	127,610
Transfer to BSA/Rainy Day Fund[b]	-1,606	-1,854	-1,535	-1,097	-1,038
Total Resources Available	**$116,896**	**$117,456**	**$122,343**	**$126,519**	**$127,561**
Proposition 98 Expenditures	49,608	49,416	50,960	52,066	51,955
Non-Proposition 98 Expenditures	64,865	65,953	69,639	73,464	77,017
Unallocated Prop 2 Debt Payments					263
Total Expenditures	**$114,473**	**$115,369**	**$120,599**	**$125,530**	**$129,235**
Fund Balance	**$2,423**	**$2,087**	**$1,743**	**$989**	**-$1,673**
Reserve for Encumbrances	971	971	971	971	971
Special Fund for Economic Uncertainties	**$1,452**	**$1,116**	**$772**	**$18**	**-$2,644**
Budget Stabilization Account/ Rainy Day Fund	$1,606	$3,460	$4,995	$6,092	$7,130
Operating Surplus/-Deficit with BSA/Rainy Day Fund Transfer	**-$3,166**	**-$336**	**-$343**	**-$754**	**-$2,663**

Source: State of California, Department of Finance

(a) The personal income tax portion of Proposition 30 expires at the end of the 2018 tax year (December 31, 2018), accordingly, more than one-half of the revenue impact of Proposition 30 is expected to be lost in fiscal year 2018-19, and beginning with fiscal year 2019-20, there will be no remaining revenue impact from Proposition 30. The sales tax portion of Proposition 30 will expire at the end of the 2016 tax year (December 31, 2016). The Proposition 30 revenue amounts projected in the 2015 Budget Act are shown below (in millions):

	2014-15	2015-16	2016-17	2017-18	2018-19
Prop 30 – Income Tax	$6,590	$6,750	$6,834	$7,020	$2,857
Prop 30 – Sales Tax	1,459	1,551	827	0	0

(b) The fiscal year 2014-15 transfer to the BSA is pursuant to Proposition 58. The fiscal years 2015-16 through 2018-19 transfers to the BSA are pursuant to Proposition 2. See "STATE FINANCES—REVENUES, EXPENDITURES AND RESERVES – Budget Reserves."

Fiscal Year 2014-15 Revised General Fund Estimates in the 2015 Budget Act

The 2014-15 Budget, including the 2014 Budget Act, was enacted on June 20, 2014. The 2015 Budget Act makes various revisions to General Fund estimates involving the beginning fund balance, revenues, expenditures, and ending General Fund reserve balance for fiscal year 2014-15. The revised revenue and expenditure estimates are set forth in Table 4 below. In addition to the information shown in Table 4, the 2015 Budget Act estimates that the beginning fund balance for the General Fund at July 1, 2014 was $1.7 billion higher than had been assumed when the 2014 Budget Act was adopted, primarily due to higher than projected revenues. These figures are preliminary estimates subject to further adjustment after receipt of additional information concerning final revenues and expenditures for fiscal year 2014-15.

The most significant change to the results for fiscal year 2014-15 as shown in Table 5 is an increase of $5.8 billion of revenues, primarily due to higher than projected tax revenues, particularly from capital gains. This was offset by an increase of $6.5 billion in expenditures.

The most significant element of the increase in expenditures is a $5.1 billion increase in Proposition 98 expenditures, due to the increased revenues described above. The 2014 Budget Act projected an ending balance in the SFEU of $0.4 billion; the revised estimate is that the ending balance of the SFEU at June 30, 2015 was approximately $1.5 billion.

Summary of State Revenues and Expenditures

The table below presents the actual revenues, expenditures and changes in fund balance for the General Fund for fiscal years 2011-12, 2012-13 and 2013-14, and the estimated results for fiscal years 2014-15 and 2015-16. In addition to the SFEU, which is part of the fund balance of the General Fund, the 2015 Budget Act projects a cumulative balance of $3.5 billion in the BSA, or the rainy day fund, at June 30, 2016.

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Consistent with historical practice, the projected beginning of period fund balance of any given fiscal year may be updated from time to time to reflect changes attributable to revisions in preceding fiscal years' activity and estimates. Changes affecting the beginning of period fund balance may include changes in both revenue and expenditure final estimates for previous years' fiscal activity.

TABLE 4
Statement of Estimated Revenues, Expenditures and Changes in Fund Balance – General Fund (Budgetary Basis)[a] Fiscal Years 2011-12 through 2015-16

(Dollars in Millions)*

	2011-12	2012-13	2013-14	Estimated[b] 2014-15	Estimated[b] 2015-16
Fund Balance–Beginning of Period	$(2,327)	$(1,609)	$4,285	$8,410	$2,423
Restatements					
Prior Year Adjustment	1,072	1,288	(316)	(2,821)	–
Fund Balance–Beginning of Period, as Restated	**$(1,253)**	**$ (320)**	**$3,969**	**$5,589**	**$2,423**
Revenues	$85,569	$98,418	$102,420	$113,357	$117,932
Other Financing Sources					
Transfers from Other Funds	1,999	2,047	1,154	(2,050)[c]	(2,899)[c]
Other Additions	262	393	213	–	–
Total Revenues and Other Sources	**$87,827**	**$100,858**	**$103,787**	**$111,307**	**$115,033**
Expenditures					
State Operations[d]	$23,683	$25,960	$25,811	$28,526	$29,614
Local Assistance	63,845	69,828	72,040	84,124	85,502
Capital Outlay	103	120	158	133	169
Unclassified	–	–	–	1,690[e]	84
Other Uses	–	–	–	–	–
Transfer to Other Funds	551	345	1,339	–[f]	–[f]
Total Expenditures and Other Uses	**$88,182**	**$96,253**	**$99,347**	**$114,473**	**$115,369**
Revenues and Other Sources Over or (Under) Expenditures and Other Uses	$(354)	4,605	$4,441	$(3,166)	$(336)
Fund Balance					
Deferred Payroll[g]	753	732	949	–	–
Reserved for Encumbrances	618	732	840	971	971
Reserved for Unencumbered Balances of Continuing Appropriations[h]	1,685	1,058	1,206	–	–
Unreserved–Undesignated [i]	(4,665)	1,763	5,415	1,452	1,116
Fund Balance–End of Period	**$(1,609)**	**$4,285**	**$8,410**	**$2,423**	**$2,087**

* Totals may not add due to rounding.

(a) These statements have been prepared on a budgetary basis in accordance with state law and some modifications would be necessary in order to comply with generally accepted accounting principles ("GAAP"). The Supplementary Information contained in the state's Audited Basic Financial Statements for the year ended June 30, 2014, attached as APPENDIX F to this Official Statement, contains a description of the differences between the budgetary basis and the GAAP basis of accounting and a reconciliation of the June 30, 2014 fund balance between the two methods. See "FINANCIAL STATEMENTS."

(Footnotes Continued on Following Page)

(Continued from Previous Page)

(b) Source: Department of Finance, as of the 2015 Budget Act.

(c) Includes transfers to the BSA of $1.606 billion in fiscal year 2014-15 and $1.854 billion in fiscal year 2015-16.

(d) Includes debt service on general obligation bonds. The estimated amount of debt service is $4.7 billion and $4.8 billion for fiscal years 2014-15 and 2015-16, respectively. These amounts are net of the federal Build America Bonds subsidy, various reimbursements to the General Fund from other funds, and amounts included in UC and CSU support budgets for debt service on UC and CSU debt, totaling approximately $1.7 billion and $1.8 billion in fiscal years 2014-15 and 2015-16, respectively, to offset debt service costs of certain bonds. See "STATE INDEBTEDNESS AND OTHER OBLIGATIONS – Capital Facilities Financing – Build America Bonds." Debt service amounts for earlier years are set forth in the table titled "Outstanding State Debt Fiscal Years 2009-10 through 2013-14" under "STATE DEBT TABLES."

(e) Includes expenditure of $1.606 billion for early repayment of the Economic Recovery Bonds.

(f) "Transfer to Other Funds" is included in "Transfers from Other Funds."

(g) Deferred Payroll, which began with the June 2010 payroll, is on-going and represents the amount of June payroll expenses deferred to July of the following fiscal year, for all state departments paid through the uniform payroll system. The Department of Finance, pursuant to Government Code Sections 12472.5 and 13302, implements the deferrals of June payroll expenditures for various governmental and nongovernmental cost funds. For 2014-15 and 2015-16, the Deferred Payroll amounts are estimated at $995 million and $1,020 million, respectively, and are included in the Unreserved-Undesignated row. Per statute, these expenditures are not recognized until the following July, under the budgetary basis of accounting and budgeting.

(h) For purposes of determining whether the General Fund budget, in any given fiscal year, is in a surplus or deficit condition, see Government Code Section 13307. Under this law, the unencumbered balances of continuing appropriations, which exist when no commitment for expenditure is made, should be an item of disclosure, but the amount shall not be deducted from the fund balance. In accordance with Government Code Section 12460, the State Controller's Budgetary/Legal Basis Annual Report reflects a specific reserve for the encumbered balance for continuing appropriations.

(i) Both actual and estimated amounts include SFEU. The Department of Finance generally includes in its estimates of the SFEU and other reserves, if any, the items reported as actual amounts by the Office of the State Controller under "Reserved for Unencumbered Balances of Continuing Appropriations."

Source: Actual amounts for fiscal years 2011-12 through 2013-14: State of California, Office of the State Controller.
Estimated amounts for fiscal years 2014-15 and 2015-16: State of California, Department of Finance.

Revenue and Expenditure Assumptions

The table below presents the Department of Finance's budget basis statements of General Fund revenue sources and expenditures by function for fiscal years 2014-15 and 2015-16, as set forth in the 2014-15 Budget and the 2015-16 Budget when they were enacted. The table also includes revisions to fiscal year 2014-15 General Fund estimates as of the 2015 Budget Act.

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TABLE 5
General Fund Revenue by Sources and Expenditures
Fiscal Years 2014-15 through 2015-16

(Dollars in Millions)

Revenues Source	2014-15 Enacted (as of June 2014)	2014-15 Revised (as of June 2015)	2015-16 Enacted (as of June 2015)
Personal Income Tax	$ 70,238	$ 75,384	$ 77,700
Sales and Use Tax	23,823	23,684	25,240
Corporation Tax	8,910	9,809	10,342
Insurance Tax	2,382	2,486	2,556
Alcoholic Beverage Taxes and Fees	359	353	360
Cigarette Tax	84	84	82
Motor Vehicle Fees	20	23	23
Other[(a)]	1,278	1,090	584
Subtotal	$ 107,094	$ 112,913	$ 116,887
Transfer to the Budget Stabilization Account/Rainy Day Fund	-1,606	-1,606	-1,854
Total	$ 105,488	$ 111,307	$ 115,033

Expenditures Function	2014-15 Enacted	2014-15 Revised	2015-16 Enacted
Legislative, Judicial and Executive	$ 2,968	$ 2,986	$ 3,158
Business, Consumer Services & Housing	850	843	627
Transportation	216	200	261
Natural Resources	2,260	2,558	2,479
Environmental Protection	63	87	69
Health and Human Services	29,652	30,015	31,867
Public Safety (including Corrections and Rehabilitation)	9,590	10,030	10,078
K-12 Education	44,980	49,659	49,373
Higher Education	12,562	13,267	14,200
Labor and Workforce Development	303	282	214
Government Operations	692	754	738
General Government			
Non-Agency Departments	715	1,498	684
Tax Relief/Local Government	442	446	469
Statewide Expenditures	1,088	242	1,152
Supplemental Payment to the Economic Recovery Bonds	1,606	1,606	-
Total Expenditures	$ 107,987	$ 114,473	$ 115,369

(a) Generally consists of transfers and loans, and various smaller amounts for miscellaneous fees, taxes, royalties, tribal gaming revenues, unclaimed property and other sources.

Source: State of California, Department of Finance.

DEBTS AND LIABILITIES UNDER PROPOSITION 2

Voters approved Proposition 2 in November 2014, which revised the state's method of funding the BSA, the state's "rainy day fund." Starting in fiscal year 2015-16, 1.5 percent of annual General Fund revenues, plus the excess of capital gains tax receipts above a certain level, not necessary to fund Proposition 98, will be applied equally to funding the BSA and paying down state debts and liabilities. See 'STATE FINANCES—REVENUES, EXPENDITURES AND RESERVES – Budget Reserves." Debts and liabilities eligible under Proposition 2 include certain budgetary borrowing accumulated over a number of years and specified payments over and above the base payments for state pensions and retiree health costs. The two main retirement systems managed by state entities, CalPERS and CalSTRS, each have substantial unfunded liabilities. See EXHIBIT 1—"PENSION SYSTEMS." The state also has a substantial unfunded liability relating to post-employment healthcare benefits for state employee retirees. See "STATE FINANCES—OTHER ELEMENTS – Retiree Health Care Costs." The table below displays the categories of debts and liabilities the Administration considers eligible for accelerated payments under Proposition 2. Although included as an eligible use of Proposition 2 funds as shown in Table 6, the state is not legally responsible for the pension and retiree health care costs of the University of California, an independent corporate entity under state law.

The 2015 Budget Act will repay loans from special funds ($1.502 billion), repay prior years of Proposition 98 underfunding (referred to as "settle up," $256 million), and help pay down the unfunded liability associated with the University of California's retirement system ($96 million). The primary strategy within the multi-year forecast period is to continue to pay down budgetary borrowing. The Administration projects that all outstanding budgetary deferrals to the schools and community colleges, Economic Recovery Bonds, loans from special funds, underfunding of Proposition 98 (settle up payments), and borrowing from transportation funds under Proposition 42 (2002) will be entirely repaid by the end of fiscal year 2018-19. Remaining outstanding budgetary borrowing after fiscal year 2018-19 is projected to include reimbursements of state mandated costs to schools and community colleges and accounting deferrals. For more information regarding accounting deferrals, see the Section "Timing Differences" in the Required Supplemental Information in APPENDIX F, "Audited Basic Financial Statements of the State of California for the Year Ended June 30, 2014."

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TABLE 6
Debts and Liabilities Under Proposition 2
2015 Budget Act

(Dollars in Millions)

	Outstanding Amount at Start of 2015-16	Use of 2015-16 Accelerated Payment	Proposed Use of 2016-17 Accelerated Payment	Proposed Use of 2017-18 Accelerated Payment	Proposed Use of 2018-19 Accelerated Payment	Remaining Amount Not Currently Scheduled[b]
Budgetary Borrowing						
Loans from special funds	$3,112	$1,502	$974	$560	$277	$0
Underfunding of Proposition 98—Settle-Up	1,512	256	390	368	498	0
State Retirement Liabilities (Unfunded Actuarial Estimate)						
State Retiree Health	71,773	0	0	0	0	N/A
State Employee Pensions	43,303	0	0	0	0	N/A
Teacher Pensions[a]	72,718	0	0	0	0	N/A
Judges' Pensions	3,358	0	0	0	0	N/A
Deferred payments to CalPERS	530	0	0	0	0	N/A
University of California Retirement Liabilities (Unfunded Actuarial Estimate)						
University of California Employee Pensions	7,633	96	171	169	0	N/A
University of California Retiree Health	14,519	0	0	0	0	N/A
Unallocated					263	
Total	**$218,458**	**$1,854**	**$1,535**	**$1,097**	**$1,038**	**N/A**

(a) The state portion of the unfunded liability for teacher pensions is $14.916 billion. See EXHIBIT 1 – "PENSION SYSTEMS – CalSTRS."
(b) N/A Remaining balance after the projection period is not known. The amount is dependent on future addition of liabilities and payments.

LITIGATION

The state is a party to numerous legal proceedings. The following describes litigation matters that are pending with service of process on the state accomplished and have been identified by the state as having a potentially significant fiscal impact upon the state's revenues or expenditures. The state makes no representation regarding the likely outcome of these litigation matters.

The following description was developed by the state with the participation of the Office of the Attorney General and other state entities. The Office of the Attorney General does not represent the state, its subdivisions, departments, agencies and other units in all matters, and accordingly there may be litigation matters of which the Office of the Attorney General is not aware. The state does not conduct a docket search of federal or state court litigation filings to identify pending litigation and no inquiry has been made into pending administrative proceedings. There may be litigation and administrative proceedings with potentially significant fiscal impacts that have not been described below.

Budget-Related Litigation

1. *Actions Challenging Cap and Trade Program Auctions*

In two consolidated matters, *California Chamber of Commerce, et al. v. California Air Resources Board*, (Sacramento County Superior Court, Case No. 34-2012-80001313) and *Morning Star Packing Co., et al. v. California Air Resources Board* (Sacramento County Superior Court, Case No. 34-2013-80001464), petitioners challenge the authority of the California Air Resources Board to conduct auctions under the state's cap and trade program and allege that the auction revenues are an unconstitutional tax under the state Constitution. The trial court ruled for the Board, finding that it had authority to conduct the auctions, and that the auction does not constitute an unconstitutional tax. Petitioners appealed (Court of Appeal, Third Appellate District, Case Nos. C075930, C075954).

2. *Actions Challenging School Financing*

In *Robles-Wong, et al. v. State of California* (Alameda County Superior Court, Case No. RG-10-515768), plaintiffs challenge the state's "education finance system" as unconstitutional. Plaintiffs, consisting of school children, school districts, the California Association of School Administrators, the California School Boards Association and California Teachers Association allege the state has not adequately fulfilled its constitutional obligation to support its public schools, and seek to enjoin the state from continuing to operate and rely on the current financing system and to develop a new education system that meets constitutional standards as declared by the court. In a related matter, *Campaign for Quality Education, et al. v. State of California* (Alameda County Superior Court, Case No. RG-10-524770), plaintiffs also challenge the constitutionality of the state's education finance system. The trial court ruled that there was no constitutional right to a particular level of school funding. Plaintiffs in each matter appealed (Court of Appeal, First Appellate District, Case Nos. A134423, A134424). Plaintiffs in these matters allege they have suffered $17 billion in education funding cuts over two years. It is currently unknown what the fiscal impact of these matters might be upon the General Fund.

Plaintiff in *California School Boards Association v. State of California* (Alameda County Superior Court, Case No. RG-11-554698), challenges the use of block grant funding to pay for education mandates in the 2012 Budget Act and associated trailer bills. The amended complaint also contends that changes to the statutes that control how education mandates are directed and funded violate the requirements of the state Constitution that the state pay local school districts for the costs of state mandated programs. After bifurcating the case, the trial court issued a ruling in favor of the state that addresses only certain of plaintiff's claims. If the court declares that the state has failed to properly pay for mandated educational programs, the state will be limited in the manner in which it funds education going forward.

3. *Actions Challenging Statutes Which Reformed California Redevelopment Law*

In *California Redevelopment Association, et al. v. Matosantos, et al.* (California Supreme Court, Case No. S194861), the California Supreme Court upheld the validity of legislation ("ABx1 26") dissolving all local Redevelopment Agencies ("RDAs").

A second case challenging the constitutionality of the RDA dissolution, *City of Cerritos, et al. v. State of California* (Sacramento County Superior Court, Case No. 34-2011-80000952) raises the same theories advanced in *Matosantos*, and additional challenges based on claimed violations of the California Constitution. The trial court denied the petitioners' motion for a preliminary injunction to block implementation of ABx1 26. Plaintiffs appealed (Court of Appeal, Third Appellate District, Case No. C070484).

There are over 100 pending actions that challenge implementation of the statutory process for winding down the affairs of the RDAs, asserting a variety of claims including constitutional claims. Some of the pending cases challenge AB 1484, which requires successor agencies to the former RDAs to remit by July 2012 certain property tax revenues for fiscal year 2011-12 that the successor agency had received, or face a penalty. Some cases challenge other provisions in ABx1 26 or AB 1484 that require successor agencies to remit various funds of former RDAs. One such case, *City of Brentwood, et al. v. California Department of Finance, et al.* (Sacramento County Superior Court, Case No. 34-2013-80001568), challenges provisions that retroactively invalidate transfers of funds from a former RDA to the city or county that created the RDA, and require redistribution of those funds. The trial court denied the petition, and the Court of Appeal affirmed (Court of Appeal, Third Appellate District, Case No. C076343). Petitioners filed a petition for review (California Supreme Court, Case No. S227681). Another case, *League of California Cities, et al. v. Matosantos, et al.* (Sacramento County Superior Court, Case No. 34-2012-80001275), challenges the statutory mechanisms for the Department of Finance or the county auditor-controller to recover these disputed amounts. The trial court granted the writ in part, striking down provisions that allowed the state to withhold a city's sales and use tax. The state appealed (Court of Appeal, Third Appellate District, Case No. C076075). In another matter asserting similar arguments, the court issued a ruling in favor of the state, finding all of the challenged statutes facially constitutional. *City of Bellflower, et al. v. Matosantos, et al.* (Sacramento County Superior Court, Case No. 34-2012-80001269). Petitioners appealed (Court of Appeal, Third Appellate District, Case No. C075832). Other cases challenge the implementation of ABx1 26, contending that various obligations incurred by the RDAs are enforceable obligations entitled to payment from tax revenues under ABx1 26. For example, in *Affordable Housing Coalition v. Sandoval* (Sacramento County Superior Court, Case No. 34 2012-80001158), plaintiffs argue that all former RDAs had obligations to pay for affordable housing that should be funded going forward. The court denied a motion for class action status in this matter.

Tax Cases

Six actions have been filed contending that the Legislature's modification of Revenue and Taxation Code Section 25128, which implemented the double-weighting of the sales factor in California's apportionment of income formula for the taxation of multistate business entities, is invalid and/or unconstitutional. *Kimberly-Clark Worldwide, Inc., et al. v. Franchise Tax Board* (San Francisco County Superior Court, Case No. CGC-10-495916); *Gillette Company and Subsidiaries v. Franchise Tax Board* (San Francisco County Superior Court, Case No. CGC-10-495911); *Procter & Gamble Manufacturing Company & Affiliates v. Franchise Tax Board* (San Francisco County Superior Court, Case No. CGC 10 495912); *Sigma-Aldrich, Inc. and Affiliates v. Franchise Tax Board* (San Francisco County Superior Court, Case No. CGC-10-496437); *RB Holdings (USA), Inc. v. Franchise Tax Board* (San Francisco County Superior Court, Case No.

CGC-10-496438); and *Jones Apparel Group v. Franchise Tax Board* (San Francisco County Superior Court, Case No. CGC-10-499083), now consolidated in one matter, collectively referred to as *Gillette Company v. Franchise Tax Board*. Plaintiffs contend that the single-weighted sales factor specified in Section 25128 prior to amendment was contained within the Multistate Tax Compact ("Compact") and therefore cannot be modified without repealing the legislation that enacted the Compact. An adverse ruling in these cases would affect multiple taxpayers and create potential exposure to refund claims in excess of $750 million. The trial court ruled for the state in each of these matters, but, on appeal, the trial court judgment was reversed (Court of Appeal, First Appellate District, Case No. A130803). The California Supreme Court granted the state's petition for review (California Supreme Court Case No. S206587). See "STATE FINANCES—REVENUES, EXPENDITURES AND RESERVES – Sources of Tax Revenue – Corporation Tax."

A pending case challenges the fee imposed by the state tax code upon limited liability companies ("LLCs") registered in California, alleging that it discriminates against interstate commerce and violates the U.S. and the state Constitutions, is an improper exercise of the state's police powers, and has been misapplied by the Franchise Tax Board. *Bakersfield Mall LLC v. Franchise Tax Board* (San Francisco County Superior Court, Case No. CGC-07-462728). *Bakersfield Mall* was filed as a purported class action on behalf of all LLCs operating solely in California. A second lawsuit that is virtually identical to *Bakersfield Mall* also seeks to proceed as a class action. *CA-Centerside II, LLC v. Franchise Tax Board* (Fresno County Superior Court, Case No. 10 CECG00434). The cases are coordinated for hearing in San Francisco as the *Franchise Tax Board LLC Tax Refund Cases,* Judicial Council Proceeding No. 4742. The coordination trial judge denied the plaintiffs' joint motion for class certification and the plaintiffs appealed (Court of Appeal, First Appellate District, Case No. A140518). If this immediately appealable order is reversed and the cases proceed as class actions, the claimed refunds could be significant (in excess of $500 million).

Two pending cases challenge the state's right to require interstate unitary businesses to report their income on a combined basis while allowing intrastate unitary businesses to report the income of each business entity on a separate basis. *Harley Davidson, Inc. and Subsidiaries v. California Franchise Tax Board* (San Diego County Superior Court, Case No. 37-2001-00100846-CU-MC-CTL, Court of Appeal, Fourth Appellate District, Case No. D064241) and *Abercrombie & Fitch Co. & Subsidiaries v. California Franchise Tax Board* (Fresno County Superior Court, Case No. 12 CE CG 03408) challenge the constitutionality of Revenue and Taxation Code Section 25101.15, allowing intrastate unitary businesses the option to report their income on a separate rather than combined basis. The trial court in *Harley Davidson* ruled for the state; the Court of Appeal reversed and remanded the matter to the trial court. Plaintiff has petitioned for review of a separate issue (California Supreme Court, Case No. S227652). The *Abercrombie* matter was stayed pending the Court of Appeal decision in the *Harley-Davidson* matter. At this time, it is unknown what future fiscal impact a potential adverse ruling would actually have on corporation taxes (including potential rebates of previously collected taxes and reduced future tax revenue) because of the uncertainty regarding the number of businesses which currently pay the tax and how taxation on those companies would change as a result of an adverse ruling. However, the fiscal impact could be significant. See "STATE FINANCES—REVENUES, EXPENDITURES AND RESERVES – Sources of Tax Revenues – Corporation Tax" for a discussion of corporation taxes. The *Harley Davidson* case also raises the issue raised in the *Gillette* case regarding modification of the apportionment formula for multi-state businesses; resolution of this issue in *Harley Davidson* has been deferred to await the outcome of the issue in *Gillette* (discussed above).

Environmental Matters

In *Consolidated Suction Dredge Mining Cases (Karuk Tribe v. DFG)* (coordinated for hearing in San Bernardino County Superior Court Case No. JCPDS4720), environmental and mining interests challenge the state's regulation of suction dredge gold mining. The Legislature placed a moratorium on all suction dredging until certain conditions are met by the Department of Fish and Wildlife. Plaintiffs, who have pled a class action but have yet to seek certification, claim that as many as 11,000 claims, at a value of $500,000 per claim, have been taken. A trial on some claims is scheduled for January 2016, while damage claims for alleged taking of property are stayed.

In related actions, *City of Colton v. American Promotional Events, Inc., et al.* (Los Angeles County Superior Court, Case No. BC 376008) and *Emhart Industries v. Regional Water Quality Control Board* (Los Angeles County Superior Court, Case No. BC 472949), defendants in actions involving liability for contaminated groundwater have filed cross complaints seeking indemnification from the state and the Regional Water Quality Control Board in an amount in each case of up to $300 million.

Escheated Property Claims

In *Taylor v. Chiang* (U.S. District Court, Eastern District, Case No. S-01-2407 WBS GGH), plaintiffs claim that the state's unclaimed property program violates the United States Constitution and various federal and state laws. Although the case is styled as a class action, no class has been certified. The district court granted the state's motion to dismiss plaintiffs' claims. Plaintiffs appealed this ruling to the Ninth Circuit, and the Ninth Circuit upheld the dismissal of the claims. Plaintiffs filed a petition for certiorari in the United States Supreme Court (U.S. Supreme Court Docket No. 15-169).

Action Seeking Damages for Alleged Violations of Privacy Rights

In *Gail Marie Harrington-Wisely, et al. v. State of California, et al.* (Los Angeles County Superior Court, Case No. BC 227373), plaintiffs seek damages, asserting that the use by the California Department of Corrections and Rehabilitation ("CDCR") of a body-imaging machine to search visitors entering state prisons for contraband violated the rights of the visitors. This matter was certified as a class action. The trial court granted judgment in favor of the state, and plaintiffs' initial appeal was dismissed (Court of Appeal, Second Appellate District, Case No. B190431). The parties agreed to a stipulated judgment and dismissed the case subject to further review if CDCR decided to use similar technology in the future. Plaintiffs filed another appeal of the dismissal of the damage claims and the appellate court reversed in part, remanding some of plaintiffs' claims for damages and for attorneys' fees to the trial court (Court of Appeal, Second Appellate District, Case No. B248565). If plaintiffs had been successful in obtaining an award of damages based on the original claims, damages could have been as high as $3 billion, but given the appellate decision narrowing the claims that remain, the potential damages are likely to be far less.

Action Regarding Special Education

Plaintiffs in *Morgan Hill Concerned Parents Assoc. v. California Department of Education* (U.S. District Court, Eastern District of California, Case No. 2:11-cv-3471-KJM), challenge the oversight and operation by the California Department of Education ("CDE") of the federal Individuals with Disabilities Education Act ("IDEA"). The complaint alleges that CDE, as the designated State Education Agency, has failed to monitor, investigate, and enforce the IDEA statewide. Under the IDEA, local school districts are the Local Educational Agencies responsible for delivering special education directly to eligible students. The complaint seeks injunctive and declaratory relief, and asks the court to retain jurisdiction to monitor the operation of the IDEA by the state.

Actions Regarding Medi-Cal Reimbursements and Fees

In *The Rehabilitation Center of Beverly Hills, et al. v. Department of Health Services, et al.* (Sacramento County Superior Court, Case No. 06CS01592), plaintiffs challenge a quality assurance fee ("QAF") charged to skilled nursing facilities that was enacted in 2004, alleging violations of the federal and state constitutions and state law. Funds assessed under the QAF are made available, in part, to enhance federal financial participation in the Medi-Cal program. Plaintiffs seek a refund of fees paid. The QAF amounts collected from all providers is approximately $2.6 billion, and California has received additional federal financial participation based on its imposition and collection of the QAF. An adverse ruling could negatively affect the state's receipt of federal funds. The trial court ruled for the state, finding that the QAF is constitutionally valid. Plaintiffs appealed (Court of Appeal, Third Appellate District, Case No. C070361).

In *California Pharmacists Association, et al. v. Maxwell-Jolly, et al.* (U.S. District Court, Central District, Case No. CV09-08200), Medi-Cal pharmacy providers filed a suit challenging reimbursement rates, including the use by DHCS of reduced published average wholesale price data to establish reimbursement rates. Plaintiffs seek injunctive relief based on alleged violations of federal law. The district court granted a request for preliminary injunction in part and denied it in part, with respect to the use of reduced published average wholesale price data to establish reimbursement rates. Both parties appealed to the Ninth Circuit Court of Appeals. The parties requested mediation. At this time it is unknown what fiscal impact this case would have on the state's General Fund.

Medicaid providers and beneficiaries filed four lawsuits against both the state and the federal government, seeking to enjoin a set of rate reductions (the AB 97 reductions) that were approved by the federal government effective June 1, 2011. *Managed Pharmacy Care, et al. v. Sebelius* (U.S. District Court, Central District, Case No. 2:11-cv-09211-CAS(MANx); *California Medical Assoc., et al. v. Douglas* (U.S. District Court, Central District, Case No. 2:11-cv-09688-CAS (MANx); *California Medical Transportation Assoc. Inc. v. Douglas* (U.S. District Court, Central District, Case No. 2:11-cv-09830-CAS (MANx); *California Hospital Association, et al. v. Douglas* (U.S. District Court, Central District, Case No. CV-11-09078 CAS (MRWx). The

Medicaid rates at issue in the four cases include pharmacy service and prescription drugs; services provided by skilled nursing facilities that are distinct part units within a hospital; non-emergency medical transportation services; physician services; dental services; durable medical equipment; and emergency ambulance services. The district court entered a series of preliminary injunctions to prevent the rate reductions from taking effect. Both the federal and state government (DHCS) appealed to the Ninth Circuit Court of Appeals, which reversed the district court, vacated the preliminary injunctions, and remanded the case. The United States Supreme Court denied plaintiffs' petitions for certiorari. The parties are in settlement discussions.

Prison Healthcare Reform and Reduction of Prison Population

The adult prison health care delivery system includes medical health care and mental health care. There are two significant cases pending in federal district courts challenging the constitutionality of prison health care. *Plata v. Brown* (U.S. District Court, Northern District, Case No. C 01-1351 TEH) is a class action regarding the adequacy of medical health care; and *Coleman v. Brown* (U.S. District Court, Eastern District, Case No. CIV S-90-0520 KJM JFM P) is a class action regarding mental health care. A third case, *Armstrong v. Brown* (U.S. District Court, Northern District, Case No. C 94-02307 CW) is a class action on behalf of inmates with disabilities alleging violations of the Americans with Disabilities Act and Section 504 of the Rehabilitation Act. In *Plata* the district court appointed a Receiver, who took office in April 2006, to run and operate the medical health care portion of the health care delivery system. The *Plata* Receiver and the Special Master appointed by the *Coleman* court, joined by the court representative appointed by the *Armstrong* court, meet routinely to coordinate efforts in these cases. To date, ongoing costs of remedial activities have been incorporated into the state's budget process. However, at this time, it is unknown what future financial impact this litigation may have on the state's General Fund. In March 2015, the court modified its order to update and clarify the process to transition responsibility for inmate medical care back to the state. This transition process is ongoing.

In *Plata* and *Coleman*, discussed above, a three-judge panel issued orders requiring the state to meet a final population-reduction benchmark by February 28, 2016, and to implement a number of measures designed to reduce the prison population. In January, 2015, the state met this court-ordered population benchmark. The state has agreed not to pursue further court appeals.

High-Speed Rail Litigation

In *Tos, et al. v. California High-Speed Rail Authority, et al.* (Sacramento County Superior Court, Case No. 34-2011-00113919), petitioners claim that the Authority has not complied with the state high-speed rail bond act in approving plans for the high-speed rail system. The trial court ruled that the Authority's plan for funding the high-speed rail project did not comply with certain requirements in the bond act, and ordered the Authority to rescind the plan. The Court of Appeal reversed the trial court ruling and the California Supreme Court (California Supreme Court Case No. S220926) denied petitions for review. A hearing on petitioners' remaining claims in *Tos* is expected in 2016.

In *Transportation Solutions Defense and Education Fund v. California Air Resources Board* (Sacramento County Superior Court, Case No. 34-2014-80001974), a transit-advocacy group seeks to reverse a decision of the California Air Resources Board ("ARB") to include the California high-speed rail project as a greenhouse gas reduction measure in the state's AB 32 Scoping Plan Update. The petitioner seeks a declaration that appropriations by the Legislature to fund the high-speed rail project from the Greenhouse Gas Reduction Fund ("GGRF") are invalid and an injunction or writ restraining ARB,the Authority and State Controller from expending funds from the GGRF for the construction of the high-speed rail project.

In the event of a final decision adverse to the state in *Tos* or *Transportation Solutions* that prevents use of bond proceeds or cap and trade funds, it is possible that the federal government may require the state to reimburse federal funds provided for the high-speed rail project if the state fails to provide other matching funds consistent with the federal grant agreement. The potential amount of any such reimbursement cannot be determined at this time.

Action Regarding State Mandates

Petitioners in *Coast Community College District, et al. v. Commission on State Mandates* (Sacramento County Superior Court, Case No. 34-2014-80001842) assert that costs for complying with certain laws and regulations prescribing standards for the formation and basic operation of California community colleges are state-mandated costs that must be reimbursed by the state. The trial court denied the petition. The potential amount of reimbursement for such costs cannot be determined at this time.

FINANCIAL STATEMENTS

The Audited Basic Financial Statements of the State of California for the Year Ended June 30, 2014 (the "Financial Statements") are included as APPENDIX F to this Official Statement and incorporated into this APPENDIX A. The Financial Statements consist of an Independent Auditor's Report, a Management Discussion and Analysis, Basic Financial Statements of the state for the Year Ended June 30, 2014 ("Basic Financial Statements"), and Required Supplementary Information. Only the Basic Financial Statements have been audited, as described in the Independent Auditor's Report. A description of the accounting and financial reporting standards set by the Governmental Accounting Standards Board and used in the Basic Financial Statements is contained in Note 1 of the Basic Financial Statements.

The State Controller issues a monthly report on General Fund cash receipts and disbursements. These reports are available on the State Controller's website, and are normally released by the 10th day of every calendar month for the period ended on the last day of the prior month. The State Controller's unaudited reports of General Fund cash receipts and disbursements for the period July 1, 2014 through June 30, 2015 and July 1, 2015-July 31, 2015 are included as EXHIBIT 2 to this APPENDIX A.

Periodic reports on revenues and/or expenditures during the fiscal year are issued by the Administration, the State Controller's Office and the LAO. The Department of Finance issues a monthly bulletin, available by accessing the internet website of the Department of Finance (www.dof.ca.gov), which reports the most recent revenue receipts as reported by state departments, comparing those receipts to budget projections. The Administration also formally updates its budget projections three times during each fiscal year, in January, May, and at the time of budget enactment. These bulletins and reports are available on the internet at websites maintained by the agencies and by contacting the agencies at their offices in Sacramento, California. Such bulletins and reports are not part of or incorporated into this APPENDIX A. Investors are cautioned that interim financial information is not necessarily indicative of results for a fiscal year. Information which may appear in this APPENDIX A from the Department of Finance concerning monthly receipts of "agency cash" may differ from the State Controller's reports of cash receipts for the same periods because of timing differences in the recording of in-transit items.

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PART II

STATE FINANCES—REVENUES, EXPENDITURES AND RESERVES

The Budget Process

The state's fiscal year begins on July 1 and ends on June 30 of the following year. The state's General Fund budget operates on a legal basis, generally using a modified accrual system of accounting for its General Fund, with revenues credited in the period in which they are measurable and available and expenditures debited in the period in which the corresponding liabilities are incurred.

The annual budget is proposed by the Governor by January 10 of each year for the next fiscal year (the "Governor's Budget"). Under state law and the state constitution, the annual proposed Governor's Budget cannot provide for projected expenditures in excess of projected resources for the ensuing fiscal year. Following the submission of the Governor's Budget, the Legislature takes up the proposal. As required by the Balanced Budget Amendment ("Proposition 58") adopted by the voters in 2004, beginning with fiscal year 2004-05, the Legislature may not pass a budget bill in which General Fund expenditures exceed estimated General Fund revenues and beginning fund balances at the time of the passage and as set forth in the budget bill. Proposition 58 also provides for mid-year adjustments in the event that the budget falls out of balance and the Governor calls a special legislative session to address the shortfall. Proposition 58 prohibits the use of general obligation bonds, revenue bonds, and certain other forms of borrowing to cover fiscal year end budget deficits. The restriction does not apply to certain other types of borrowing, such as: (i) short-term borrowing to cover cash shortfalls in the General Fund (including RANs or RAWs), or (ii) inter-fund borrowings.

Under the state Constitution, money may be drawn from the State Treasury only through an appropriation made by law. The primary source of annual expenditure appropriations is the annual Budget Act as approved by the Legislature and signed by the Governor. Pursuant to Proposition 25, enacted in 2010, the Budget Act (and other appropriation bills/"trailer bills" which are part of a budget package) must be approved by a majority vote of each House of the Legislature, rather than the previously required two-thirds vote, and legislators must forfeit their pay if the Legislature fails to pass the budget bill on time. The Governor may reduce or eliminate specific line items in the Budget Act or any other appropriations bill without vetoing the entire bill. Such individual line-item vetoes are subject to override by a two-thirds majority vote of each House of the Legislature.

Appropriations also may be included in legislation other than the Budget Act. Continuing appropriations, available without regard to fiscal year, may also be provided by statute or the state Constitution. Funds necessary to meet an appropriation are not required to be in the State Treasury at the time an appropriation is enacted; revenues may be appropriated in anticipation of their receipt.

The General Fund

The moneys of the state are segregated into the General Fund and over 1,000 other funds, including special, bond and trust funds. The General Fund consists of revenues received by the

State Treasury and not required by law to be credited to any other fund, as well as earnings from the investment of state moneys not allocable to another fund. The General Fund is the principal operating fund for the majority of governmental activities and is the depository of most of the major revenue sources of the state. For additional financial data relating to the General Fund, see the State Controller's unaudited report of General Fund cash receipts and disbursements attached to this APPENDIX A as EXHIBIT 2 and the audited financial statements in APPENDIX F to this Official Statement. See also "STATE FINANCES – REVENUES, EXPENDITURES AND RESERVES" and "FINANCIAL STATEMENTS."

The General Fund may be expended as a consequence of appropriation measures enacted by the Legislature and approved by the Governor (including the annual Budget Act), as well as appropriations pursuant to various constitutional authorizations and initiative statutes. See "STATE FINANCES – OTHER ELEMENTS – State Appropriations Limit."

Because the principal of and interest on the securities being offering in this Official Statement are payable primarily or secondarily from moneys in the General Fund, and not from special, bond and trust funds of the state, the description of state finances in this Appendix A primarily includes information relating to revenues and expenditures of, or moneys available for transfer to, the General Fund.

Restrictions on Raising or Using General Fund Revenues

Over the years, a number of laws and constitutional amendments have been enacted, often through voter initiatives, which have reduced the state's budgetary flexibility by making it more difficult for the state to raise taxes or restricting or earmarking the use of tax revenues.

For example, Proposition 13, passed in 1978, makes it more difficult for the state to raise taxes by requiring that any change in state taxes enacted for the purpose of increasing revenues, whether by increased rates or changes in computation, be approved by a two-thirds vote in each house of the Legislature. More recently, in 2010 the voters approved Proposition 26, which specifies that a two-thirds vote of both houses of the Legislature is required for any increase in any tax on any taxpayer, eliminating the prior practice where a tax increase coupled with a tax reduction could be adopted by majority vote. It also provides that any increase in a fee beyond the amount needed to provide the specific service or benefit is deemed a tax requiring two-thirds vote. A related measure, Proposition 4, approved in 1979, limits government spending by establishing an annual limit on the appropriation of proceeds of taxes.

Several recent initiatives have earmarked certain taxes or funds for specific expenditures. For example, in 2012, voters approved Proposition 30, which provided temporary increases in personal income tax rates for high-income taxpayers and a temporary increase in the state sales tax rate, and specified that the additional revenues will support K-12 public schools and community colleges as part of the Proposition 98 guarantee. Proposition 30 also placed into the state Constitution the current statutory provisions transferring 1.0625 percent of the state sales tax to local governments to fund the "realignment" program for many services including housing criminal offenders. See "STATE FINANCES – REVENUES, EXPENDITURES AND RESERVES – Sources of Tax Revenue."

Proposition 98, enacted in 1988, directs a minimum portion of General Fund revenues to support K-12 schools and community colleges. In 2002, the voters approved Proposition 49 which requires the state to expand funding for before and after school programs in the state's public elementary, middle and junior high schools. Since fiscal year 2006-07, these after school programs have been funded at $550 million annually. These funds are part of the Proposition 98 minimum funding guarantee for K-14 education and expenditures can only be reduced in certain low revenue years. See "STATE FINANCES – REVENUES, EXPENDITURES AND RESERVES—State Expenditures –K-12 Education and Proposition 98."

In 1998, Proposition 10 raised taxes on tobacco products and mandated how the additional revenues would be expended. In 2004, the voters approved Proposition 63 which imposes a 1 percent tax surcharge on taxpayers with annual taxable income of more than $1 million for purposes of funding and expanding mental health services. Proposition 63 prohibits the Legislature or the Governor from redirecting these funds or from reducing General Fund support for mental health services below the levels provided in fiscal year 2003-04. Another measure affecting tax receipts was Proposition 39 (2012), discussed below under "Sources of Tax Revenue – Corporation Tax."

Sources of Tax Revenue

The following is a summary of the state's major tax revenues and tax laws. Further information on state revenues is available under "CURRENT STATE BUDGET." In fiscal year 2015-16, approximately 98.5 percent of the state's General Fund revenues and transfers were derived from personal income taxes, corporation taxes, and sales and use taxes. The bar chart below shows total General Fund revenues and transfers by the three major revenue sources, and all other revenues and transfers, for a ten-year period.

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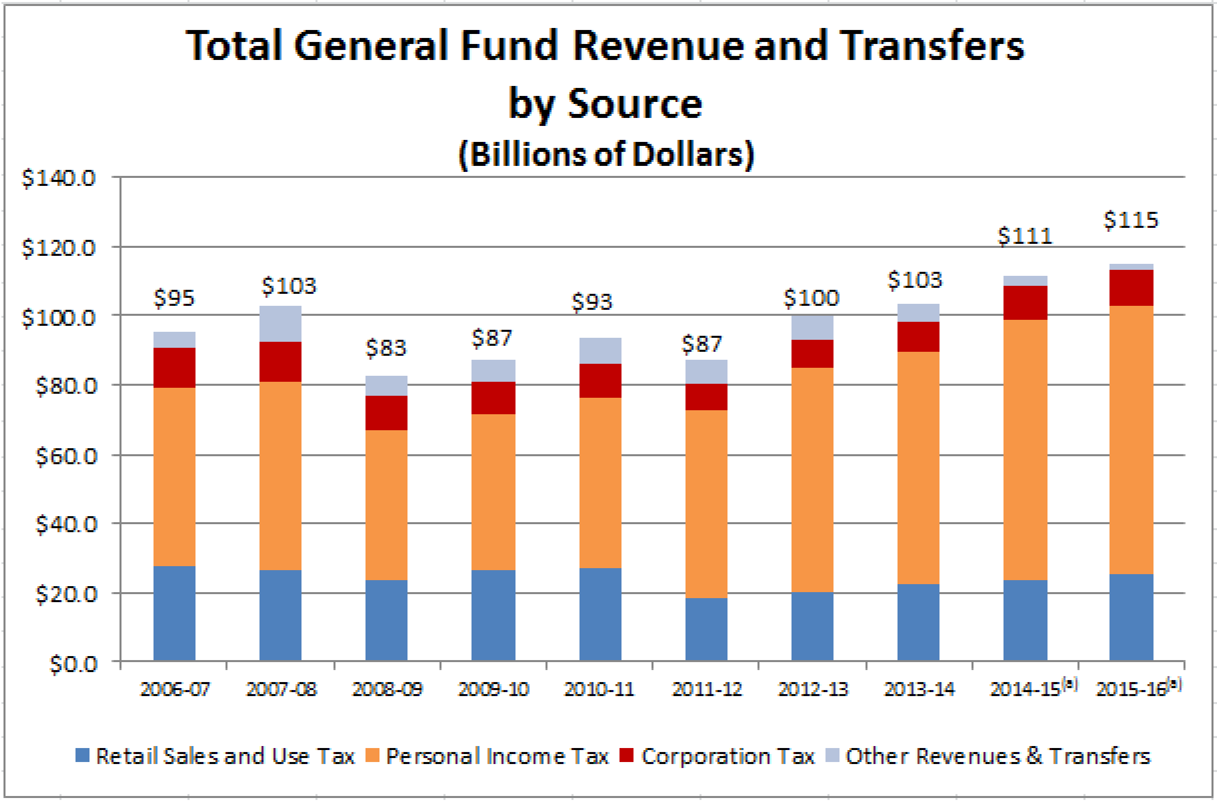

(a) Estimated.

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

TABLE 7
General Fund Revenues and Transfers
(Includes Percentage of Total General Fund Revenues and Transfers)
(Dollars in Millions)

Fiscal Year	Personal Income Tax		Sales & Use Tax		Corporate Income Tax		Other Revenues and Transfers		Total
2006-07	$51,971	*54%*	$27,445	*29%*	$11,158	*12%*	$4,841	*5%*	$ 95,415
2007-08	54,182	*53*	26,613	*26*	11,849	*12*	9,930	*10*	102,574
2008-09	43,376	*52*	23,753	*29*	9,536	*12*	6,107	*7*	82,772
2009-10	44,852	*52*	26,741	*31*	9,115	*10*	6,333	*7*	87,041
2010-11	49,445	*53*	26,983	*29*	9,614	*10*	7,447	*8*	93,489
2011-12	54,261[b] [c]	*62*	18,658[d]	*21*	7,233	*8*	6,919[f]	*8*	87,071
2012-13	64,484[c]	*65*	20,482[c]	*20*	7,783[e]	*8*	7,166	*7*	99,915
2013-14	67,025[c]	*65*	22,263[c]	*22*	9,093[e]	*9*	4,994	*5*	103,375
2014-15[a]	75,384[c]	*68*	23,684[c]	*21*	9,809[e]	*9*	2,430[g]	*2*	111,307
2015-16[a]	77,700[c]	*68*	25,240[c]	*22*	10,342[e]	*9*	1,751[g]	*2*	115,033

(a) Estimated.

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

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

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

(e) Reflects the passage of Proposition 39, which requires single sales factor apportionment for most multi-state businesses. See "STATE FINANCES—REVENUES, EXPENDITURES AND RESERVES – Sources of Tax Revenue – Corporation Tax."

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

(g) Reflects transfer of $1.606 billion in fiscal year 2014-15 and $1.854 billion in fiscal year 2015-16 from the General Fund to the BSA for rainy day purposes.

Percentages may not add to 100 percent because of rounding.

Source: State of California, Department of Finance.

1. *Personal Income Tax*

The California personal income tax is closely modeled after the federal income tax law. It is imposed on net taxable income (gross income less exclusions and deductions), with rates ranging from 1 percent to 12.3 percent. In addition, a 1 percent surcharge is imposed on taxable income above $1 million and proceeds from such tax are dedicated to the Mental Health Services Fund. The personal income tax brackets, along with other tax law parameters, are adjusted annually by the change in the consumer price index to prevent taxpayers from being pushed into higher tax brackets without a real increase in income. Personal, dependent, and other credits are allowed against the gross tax liability. In addition, taxpayers may be subject to an alternative minimum tax ("AMT"), which is much like the federal AMT. The personal income tax structure is considered to be highly progressive. For example, the Franchise Tax Board indicates that the top 1 percent of taxpayers paid 45.5 percent of the total personal income tax in tax year 2013.

The 2015 Budget Act revenue projections include the revenue expected from Proposition 30. This measure provides for an increase in the personal income tax rate of 1 percent for joint filing taxpayers with income above $500,000 and equal to or below $600,000; 2 percent increase for incomes above $600,000 and equal to or below $1,000,000; and 3 percent increase for incomes above $1,000,000. For single filers these tax rate increases start at incomes one-half those for joint filers. These additional rates are in effect for calendar years 2012 through 2018. The Administration estimates that the additional revenue from the three new tax brackets was $5.5 billion in fiscal year 2012-13 and $5.8 billion in fiscal year 2013-14, and is projected to be $6.6 billion in fiscal year 2014-15, and $6.8 billion in fiscal year 2015-16.

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The following table shows actual and projected tax revenues related to personal income tax for a ten year period, including a breakdown of capital gains included in that tax:

TABLE 8
Personal Income Tax General Fund Revenues (PIT)
(Includes Percentage of Total General Fund Revenues and Transfers)
Fiscal Years 2006-07 through 2015-16
(Dollars in Millions)

Fiscal Year	Capital Gains		All Other PIT		Total PIT	
2006-07	$ 9,999	*10.5%*	$41,944	*44.0%*	$51,971	*54.4%*
2007-08	8,980	*8.8*	45,254	*44.1*	54,182	*52.9*
2008-09	3,863	*4.7*	39,513	*47.7*	43,376	*52.4*
2009-10[(a)]	2,983	*3.4*	41,869	*48.1*	44,852	*51.5*
2010-11[(a)]	4,526	*4.8*	44,919	*48.1*	49,445	*52.9*
2011-12[(b)]	6,020	*6.9*	48,241	*55.6*	54,261	*62.5*
2012-13[(b)]	9,552	*9.6*	54,932	*55.3*	64,484	*64.9*
2013-14[(b)(c)]	9,027	*8.7*	57,998	*56.1*	67,025	*64.8*
2014-15[(b)(c)]	12,186	*11.0*[(e)]	63,198	*56.7*[(e)]	75,384	*67.7*[(e)]
2015-16[(b)(c)(d)]	11,659	*10.1*[(e)]	66,041	*57.4*[(e)]	77,700	*67.5*[(e)]

(a) Includes revenue from the temporary 0.25 percent surcharge on all personal income tax brackets and a reduction in the dependent exemption credit in 2009 and 2010.

(b) Includes revenue from the higher rates imposed by Proposition 30 that are dedicated to the Education Protection Account. See "STATE FINANCES—REVENUES, EXPENDITURES AND RESERVES – State Expenditures –*Proposition 98 and K-14 Funding*."

(c) Estimated.

(d) Revenue for 2015-16 reflects a reduction of $380 million due to the adoption of the state Earned Income Tax Credit as part of the 2015-16 Budget.

(e) Revenues and Transfers reflect transfers of $1.6 billion in fiscal year 2014-15 and $1.9 billion in fiscal year 2015-16 to the BSA.

Source: State of California, Franchise Tax Board provided calendar year estimates based on actual capital gains realizations through 2011. From 2012 onward, State of California, Department of Finance estimated calendar year capital gains based on actual capital gains realizations for 2012 and 2013 and the forecasted realizations for 2014 and forward. Fiscal year totals for capital gains shown in this table are estimated by adding 70 percent of calendar year total in first half of fiscal year to 30 percent of calendar year total in second half of fiscal year. All other information provided by State of California, Department of Finance.

Personal income tax receipts over the past few years have been impacted by changes in federal tax legislation, including increases in the rate of taxation on capital gains and a surtax on certain unearned income which went into effect on January 1, 2013. This led to the acceleration of realization of some income into calendar year 2012, for fiscal year 2012-13, which might otherwise have been received in a later fiscal year.

Taxes on capital gains realizations, which are linked to stock market and real estate performance, can add significant volatility to personal income tax receipts. For example, capital gains tax receipts accounted for nearly 12 percent of General Fund revenues and transfers in 1999-00 and 2000-01, but dropped below 4 percent in 2002-03 and 2009-10. The 2015-16 Budget projects that capital gains will account for 11.0 percent of General Fund revenues and transfers in fiscal year 2014-15, and 10.1 percent in fiscal year 2015-16. See "CURRENT STATE BUDGET – Budget Risks."

2. *Sales and Use Tax*

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

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

As of January 1, 2015, the breakdown for the uniform statewide state and local sales and use tax (referred to herein as the "sales tax") rate of 7.50 percent was as follows (many local jurisdictions have voted additional sales taxes for local purposes):

- 3.9375 percent imposed as a state General Fund tax;
- 0.25 percent dedicated to the Education Protection Account, per Proposition 30;
- 1.0625 percent dedicated to local governments for realignment purposes (Local Revenue Fund 2011);
- 0.5 percent dedicated to local governments for health and welfare program realignment (Local Revenue Fund);
- 0.5 percent dedicated to local governments for public safety services (Local Public Safety Fund);
- 1.0 percent local tax imposed under the Uniform Local Sales and Use Tax Law, with 0.25 percent dedicated to county transportation purposes and 0.75 percent for city and county general-purpose use; and
- 0.25 percent deposited into the Fiscal Recovery Fund to repay the state's ERBs (the "special sales tax"), which will be terminated as of January 1, 2016. (See below.)

Passage of Proposition 30 added a 0.25 percent additional sales tax rate from January 1, 2013 through December 31, 2016. Proposition 30 also constitutionally guarantees that the 1.0625 percent of the sales tax rate is dedicated to the cost of the realignment of certain defined public safety services programs from the state to the counties and explicitly states that this sales tax revenue does not constitute General Fund revenue for purposes of the Proposition 98 guarantee. The 1.0625 percent of the sales tax rate was expected to generate $6.2 billion in fiscal year 2014-15 and $6.6 billion in fiscal year 2015-16.

Existing law provides that 0.25 percent of the base state and local sales tax rate may be suspended in any calendar year upon certification by the Director of Finance, by November 1 in the prior year, that both of the following have occurred: (1) the General Fund reserve (excluding the revenues derived from the 0.25 percent special sales tax) is expected to exceed 3 percent of revenues in that fiscal year (excluding the revenues derived from the 0.25 percent special sales tax) and (2) actual revenues for the period May 1 through September 30 equal or exceed the previous May Revision forecast. The 0.25 percent rate will be reinstated the following year if the Director of Finance subsequently determines conditions (1) or (2) above are not met for that fiscal year. The Department of Finance estimates that the reserve level will be insufficient to trigger a reduction for calendar year 2015. See "CURRENT STATE BUDGET – Summary of State Revenues and Expenditures" for a projection of the fiscal years 2014-15 and 2015-16 General Fund reserve.

As of August 5, 2015, funds to pay all of the remaining outstanding ERBs have been set aside in several irrevocable escrow funds. Accordingly, on January 1, 2016, the special sales tax will terminate and the city and county portion of taxes under the uniform local sales and use tax will be automatically increased by 0.25 percent. See "STATE INDEBTEDNESS AND OTHER OBLIGATIONS – Economic Recovery Bonds." A large portion, and perhaps all, of the special sales taxes collected between August 5, 2015 and December 31, 2015, will be used to pay back cities and counties for the revenue they had foregone from the initial loss of 0.25 percent tax rate under the uniform local sales and use tax when the ERBs were first issued.

3. *Corporation Tax*

Corporation tax revenues are derived from the following taxes:

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

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

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

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

- Sub-Chapter S corporations are taxed at 1.5 percent of profits.
- Fees paid by limited liability companies ("LLCs"), which account for 3.6 percent of corporation tax revenue, are considered "corporation taxes."

Six actions have been filed contending that the Legislature's modification of Revenue and Taxation Code Section 25128, which implemented the double-weighting of the sales factor in California's apportionment of income formula for the taxation of multistate business entities, is invalid and/or unconstitutional. These six actions are now consolidated in one matter and collectively referred to as *Gillette Company v. Franchise Tax Board ("Gillette").* The *Gillette* case is currently pending at the California Supreme Court. An adverse decision in this case could result in a revenue loss (from this case and for similar taxpayers) of approximately $750 million. It is likely, however, that even if the Franchise Tax Board of the state were to ultimately lose this case, due to the expected time required for litigation, the vast majority of this revenue loss would not occur for several years. See "LITIGATION – Tax Cases."

Legislation enacted in the Budget Acts of 2008, 2009, and 2010 significantly reduced corporation tax revenues beginning in fiscal year 2011-12. However, the passage of Proposition 39 in November 2012 reverses portions of the reductions in revenue due to those tax changes. Proposition 39 amended a provision giving corporations an option on how to calculate the portion of worldwide income attributable to California. By requiring corporations to base their state tax liability on sales in California, it is estimated that state revenues increased by $666 million in fiscal year 2014-15 and $721 million in fiscal year 2015-16, and will increase almost $900 million by fiscal year 2018-19. The measure also, for fiscal years 2013-14 through 2017-18, dedicates 50 percent, up to $550 million, per year from the annual estimate of this increased income to funding of projects that create energy efficiency and clean energy jobs in California.

The legislatively enacted changes, together with Proposition 39, are expected to generate a net revenue loss of $467 million in fiscal year 2014-15 and $267 million in fiscal year 2015-16.

4. Insurance Tax

The majority of insurance written in California is subject to a 2.35 percent gross premium tax. For insurers, this premium tax takes the place of all other state and local taxes except those on real property and motor vehicles. Exceptions to the 2.35 percent rate are certain pension and profit-sharing plans which are taxed at the lesser rate of 0.5 percent, surplus lines and non-admitted insurance at 3 percent and ocean marine insurers at 5 percent of underwriting profits.

5. Other Taxes

Other general fund taxes and licenses include: cigarette taxes; alcoholic beverage taxes; horse racing license fees; and trailer coach license fees.

6. Special Fund Revenues

The state Constitution and statutes specify the uses of certain revenues. Such receipts are accounted for in various special funds. While these funds are not directly available to repay state general obligation bonds, the General Fund may, when needed to meet cash flow needs, temporarily borrow from certain special funds. See “CASH MANAGEMENT – Inter-Fund Borrowings.” In general, special fund revenues comprise three categories of income:

- Receipts from tax levies which are allocated to specified functions, such as motor vehicle taxes and fees and certain taxes on tobacco products.
- Charges for certain services provided by the state government to individuals, businesses, or organizations, such as fees for the provision of business and professional licenses.
- Rental royalties and other receipts designated for particular purposes (e.g., oil and gas royalties).

Motor vehicle-related taxes and fees are projected to account for approximately 25 percent of all special fund revenues in fiscal year 2015-16. Principal sources of this income are motor vehicle fuel taxes, registration and weight fees and vehicle license fees. In fiscal year 2015-16, $11.4 billion of special fund revenues are projected to come from the ownership or operation of motor vehicles. For a discussion of Proposition 1A of 2004, which replaced a portion of vehicle license fees with increased property tax revenues, see “STATE FINANCES—OTHER ELEMENTS – Local Governments Impacts on State Finances.”

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The following table displays major special fund revenues (actual and estimated).

TABLE 9
Comparative Yield of State Taxes – Special Funds
Fiscal Years 2010-11 through 2015-16
(Modified Accrual Basis)

(Dollars in Thousands)

Fiscal Year	Sales and Use[(a)]	Personal Income[(b)]	Tobacco[(c)]	Insurance[(d)]	Motor Vehicle Fuel	Motor Vehicle Fees[(e)]
2010-11	$11,459,743	$ 1,062,520	$809,148	$230,133	$5,705,527	$5,198,006
2011-12	17,960,804	1,188,026	800,677	251,073	5,544,530	5,817,168
2012-13	19,160,335	1,684,000	778,703	21,379	5,492,850	5,838,702
2013-14	20,995,825	1,281,000	746,748	--	6,063,356	6,204,720
2014-15[(f)]	22,364,278	1,767,000	707,487	--	5,720,558	6,377,422
2015-16[(f)]	22,775,721	1,806,000	688,372	--	4,892,841	6,554,767

(a) These figures include allocations to Public Transportation Account, State Fiscal Recovery Fund, Local Public Safety Fund, and both Local Revenue Funds (1991 and 2011 Realignment), and the Bradley Burns tax, which is dedicated to city and county operations. Beginning in fiscal year 2013-14, includes revenue for a tax on Medi-Cal managed care premiums, with the rate being equal to the state General Fund sales tax rate.
(b) These figures include the revenue estimate for a 1.0 percent surcharge on taxpayers with taxable income over $1 million, with the proceeds funding mental health programs pursuant to Proposition 63.
(c) Figures include allocations to the California Children and Families First Trust Fund, Breast Cancer Fund, and the Cigarette and Tobacco Products Surtax Fund.
(d) Figures include insurance tax on Medi-Cal managed care plans from fiscal year 2010-11 through 2012-13.
(e) Registration and weight fees, motor vehicle license fees and other fees. See "STATE FINANCES—OTHER ELEMENTS – Local Governments Impacts on State Finances."
(f) Estimated for fiscal years 2014-15 and 2015-16.

Note: This table includes only revenue accruing to special funds. Some revenue sources are dedicated to local governments. This table also excludes fees, such as motor vehicle weight fees and license fees.
Source: State of California, Department of Finance.

7. *Taxes on Tobacco Products*

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

- Fifty cents of the per-pack tax on cigarettes and the equivalent rate levied on non-cigarette tobacco products are deposited in the California Children and Families First Trust Fund and are allocated primarily for early childhood development programs, pursuant to Proposition 10 (1998).

- Twenty-five cents of the per-pack tax on cigarettes and the equivalent rates levied on non-cigarette tobacco products are allocated to the Cigarette and Tobacco Products Surtax Fund, pursuant to Proposition 99 (1988). These funds are appropriated for anti-tobacco education and research, indigent health services, and environmental and recreation programs.

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

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

State Expenditures

The four biggest categories of state expenditures—comprising approximately 90 percent of the annual budget each year—are K-12 Education, Higher Education, Health and Human Services and Public Safety (including Corrections and Rehabilitation). Other expenditure categories are shown in Table 17 below.

1. K-12 Education and Proposition 98

General. California provides instruction and support services to roughly six million students in grades kindergarten through twelve in more than 10,000 schools throughout the state. K-12 education programs are primarily funded under Proposition 98, and will receive funding of \$49.4 billion from the General Fund for fiscal year 2015-16 (both Non-Proposition 98 and Proposition 98).

Proposition 98 Funding for K-12 and Community Colleges. State funding for K-12 schools and community colleges (referred to collectively as "K-14 education") is determined largely by Proposition 98, a voter-approved constitutional amendment passed in 1988. Proposition 98, as amended by Proposition 111 in 1990, is mainly comprised of a set of three formulas, or three tests, that guarantee schools and community colleges a minimum level of funding from the state General Fund and local property taxes, commonly referred to as the minimum guarantee. Which test applies in a particular year is determined by multiple factors including the level of funding in 1986-87, local property tax revenues, changes in school attendance, growth in per capita personal income, and growth in per capita General Fund revenue. The applicable test, as determined by these factors, sets the minimum funding level. Most of the factors are adjusted frequently and some may not be final for several years after the close of the fiscal year. Therefore, additional appropriations—referred to as settle-up funds—may be required to fully satisfy the minimum guarantee for prior years. Settle-up payments are made in future years at the discretion of the Legislature and the Governor.

Although the Constitution requires a minimum level of funding for education, the state may provide more or less than the minimum guarantee. If the state provides more than is required, the minimum guarantee is increased on an ongoing basis. If the state provides less than required, the minimum guarantee must be suspended in statute with a two-thirds vote of Legislature. When the minimum guarantee is suspended, the suspended amount is owed to schools in the form of a maintenance factor. A maintenance factor obligation is also created in years when the operative minimum guarantee is calculated using a per capita General Fund inflation factor (Test 3) and is lower than the calculation using a per capita personal income inflation factor (Test 2). (In Test 1 years, a fixed percentage of General Fund revenues is used in the calculation.) In both a suspension and a Test 3 year, the amount of maintenance factor obligation created is equal to the difference between the funded level and the Test 2 level.

Maintenance factor is repaid according to a Constitutional formula in years when the growth in per capita General Fund revenues exceeds the growth in per capita personal income.

The passage of Proposition 30 has temporarily created an additional source of funds for K-14 education. The newly created fund, the Education Protection Account ("EPA"), is available to offset Proposition 98 General Fund expenditures for fiscal years 2012-13 through 2018-19, freeing up General Fund resources for other purposes. See "Funding for Fiscal Years 2014-15 and 2015-16" below.

Proposition 2, approved by the voters in November 2014, creates the Public School System Stabilization Account ("PSSSA"), a special fund that serves as a Proposition 98 reserve, and requires a deposit in the PSSSA under specified conditions. These conditions are not anticipated to be met in fiscal year 2014-15 or fiscal year 2015-16. Therefore, no deposit into the PSSSA is currently anticipated.

<u>Funding for Fiscal Years 2014-15 and 2015-16 for K-12 and Community Colleges Under Proposition 98</u>. As shown in Table 10, the Proposition 98 minimum guarantee has increased significantly over the 2014 Budget Act estimates primarily due to increases in General Fund revenues. The 2015 Budget Act estimates the Proposition 98 minimum guarantee to be $68.4 billion in fiscal year 2015-16 and $66.3 billion in fiscal year 2014-15, increases of $7.6 billion and $5.4 billion, respectively, over the levels assumed for each of those fiscal years as of the 2014 Budget Act. The General Fund share is $49.4 billion in 2015-16 and $49.6 billion in 2014-15, which includes over $8 billion each year in EPA General Fund revenues. This slight decrease in General Fund from fiscal year 2014-15 to fiscal year 2015-16 is due to an increase in local property tax revenues of $2.3 billion. The local property tax revenue increase is attributable to an increase in base property tax revenues, as well as other shifts of local property tax revenues back to schools and community colleges.

The 2015 Budget Act reflects Proposition 98 General Fund expenditures in fiscal years 2013-14 through 2015-16, as outlined in the table below.

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TABLE 10
Proposition 98 Funding
(Dollars in Millions)

	2013-14		Fiscal Year 2014-15		2015-16	Change From Revised 2014-15 to Enacted 2015-16	
	Enacted[a]	**Revised**[c]	**Enacted**[b]	**Revised**[c]	**Enacted**[c]	**Amount**	**Percent**
K-12 Proposition 98							
State General Fund	$29,741	$32,463	$33,534	$36,879	$36,884	$ 5	0.0%
Education Protection Account	5,572	6,284	6,635	7,754	7,231	(523)	-6.7%
Local property tax revenue[d]	13,936	13,736	14,089	14,432	16,380	1,948	13.5%
Subtotals [e]	$49,249	$52,483	$54,258	$59,065	$60,495	$1,430	2.4%
CCC Proposition 98							
State General Fund	$ 3,053	$ 3,472	$ 3,473	$ 4,017	$ 4,407[e]	$ 390	9.7%
Education Protection Account	689	777	820	958	894	(64)	-6.7%
Local property tax revenue[d]	2,291	2,182	2,308	2,263	2,613	350	15.5%
Subtotals [e]	$ 6,033	$ 6,431	$ 6,601	$ 7,238	$ 7,914	$ 676	9.3%
Total Proposition 98							
State General Fund	$32,794	$35,935	$37,007	$40,896	$41,291	$ 395	1.0%
Education Protection Account	6,261	7,061	7,455	8,712	8,125	(587)	-6.7%
Local property tax revenue[d]	16,227	15,918	16,397	16,695	18,993	2,298	13.8%
Totals[f]	$55,282	$58,914	$60,859	$66,303	$68,409	$2,106	3.2%

(a) As of the 2013 Budget Act, adopted on June 27, 2013.

(b) As of the 2014 Budget Act, adopted on June 20, 2014.

(c) As of the 2015 Budget Act, adopted on June 24, 2015.

(d) Beginning in fiscal year 2011-12, local property tax revenues include amounts shifted to schools as a result of the elimination of redevelopment agencies. Fiscal years 2013-14, 2014-15, and 2015-16 include the one-time distribution of cash assets held by redevelopment agencies.

(e) Beginning in fiscal year 2015-16, the community college amount includes $500 million for the K-14 Adult Education Block Grant.

(f) Totals may not add due to rounding.

Source: State of California, Department of Finance.

Future Obligations. As explained above under "General," there are two forms of future obligations for the state General Fund which may be created under Proposition 98: maintenance factor and settle-up payments. Both of these obligations have been implemented in years leading up to fiscal year 2015-16. The following table shows the estimated Proposition 98 future obligations as of the 2015 Budget Act:

TABLE 11
Proposition 98 Future Obligations Balances
(Dollars in Millions)

Year-End Balances:	Fiscal Year 2011-12 Estimated[(a)]	2012-13 Estimated[(a)]	2013-14 Estimated[(a)]	2014-15 Estimated[(a)]	2015-16 Estimated[(a)]
Maintenance Factor	$10,606	$5,828	$6,157	$743	$772
QEIA Settle-up[(b)]	410	410	410	0	0
Other Settle-Up	1,512	1,512	1,512	1,512[(c)]	1,256

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

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

(c) Included in "Underfunding of Proposition 98" in Table 6.

Note: Proposition 98 budgetary deferrals are not included in this Table. The 2014 Budget Act included deferral payments of $5.2 billion: $662 million made toward the deferral balance in fiscal year 2014-15 and additional payments of $4.5 billion made in fiscal year 2014-15 toward deferral balances in fiscal years 2012-13 and 2013-14. In addition, a trigger mechanism included in the 2014 Budget Act resulted in the remaining deferral balance of $992 million being paid in fiscal year 2014-15. In total, these payments eliminated the remaining deferral balance at the end of fiscal year 2014-15.

Maintenance factor payments are included in the multi-year projection (as shown in Table 3) developed by the Department of Finance based on factors known as of the 2015 Budget Act. The maintenance factor balance is adjusted by average daily attendance and per capita personal income growth each year. A payment of $5.4 billion, as required by Constitutional formula, is built into fiscal year 2014-15.

No maintenance factor payment was required in fiscal year 2013-14 and none is projected in fiscal years 2015-16, 2016-17 or 2017-18.

2. Higher Education

California has a comprehensive system of public higher education comprised of three segments: the California Community Colleges ("CCCs"), the California State University System and the University of California.

As discussed above, the state funds its community colleges under Proposition 98, and the 2015-16 Budget provides an estimated $7.9 billion Proposition 98 funds for community colleges (consisting of both General Fund moneys and local property taxes). There are 112 community college campuses operated by 72 community college districts, which provide associate degrees and certificates to students. Additionally, students may attend CCCs to meet basic skills and other general education requirements prior to transferring to a four-year undergraduate institution. The CCCs awarded 190,353 associate degrees and certificates in the 2013-14 school year. For the 2013-14 school year, approximately 1.1 million full-time equivalent students were enrolled at CCCs.

The California State University provides undergraduate and graduate degrees, awarding 103,637 degrees in the 2013-14 school year. The California State University enrolled 370,585 full-time students at 23 campuses in the 2013-14 school year.

The University of California provides undergraduate, graduate and professional degrees to students, awarding 62,919 degrees in the 2013-14 school year. The ten University of California campuses and the Hastings College of Law enrolled 243,315 full time students in the 2013-14 school year.

The following table summarizes the General Fund support for the three units of state higher education:

TABLE 12
Higher Education
General Fund Expenditures
(Dollars in Billions)

Fiscal Year	CSU[(a)(b)]	UC[(c)]	CCC
2011-12	$2.0	$2.3	$3.3
2012-13	2.3	2.4	3.9
2013-14	2.6	2.8	4.2
2014-15	3.0	3.0	5.0
2015-16	3.3	3.2	5.3

(a) Includes CSU Retired Annuitants Health Benefits
(b) Includes General Obligation debt service costs beginning 2014-15
(c) Includes General Obligation debt service costs beginning 2013-14

3. *Health and Human Services*

Medi-Cal. Medi-Cal, California's Medicaid program, is a health care entitlement program for low-income individuals and families who receive public assistance or otherwise lack health care coverage. Medi-Cal serves approximately 32 percent of all Californians.

Average monthly caseload in Medi-Cal is projected to be 12.1 million in fiscal year 2014-15. Caseload is expected to increase in fiscal year 2015-16 by approximately 303,000, or 2.5 percent, to 12.4 million people. The significant increase in caseload and total expenditures (particularly federal funds) in the last two years is largely due to the implementation of federal health care reform.

The following table shows Medi-Cal expenditures.

TABLE 13
Medi-Cal Expenditures
(Dollars in Billions)

Fiscal Year	General Fund	Other State Funds	Federal Funds	Total[(a)]
2011-12	$15.2	$2.1	$26.4	$43.7
2012-13	15.0	6.4	28.5	49.9
2013-14	16.6	5.7	34.1	56.4
2014-15[(b)]	17.7	9.6	55.0	82.3
2015-16[(b)]	18.2	14.1	59.2	91.5

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

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

Health Care Reform. California continues its implementation of the federal Affordable Care Act (ACA). Since January 1, 2014, more than 5 million Californians have obtained health insurance, either through the state's new insurance exchange (Covered California) or through the two part (mandatory and optional) expansion of Medi-Cal. The mandatory Medi-Cal expansion simplified eligibility, enrollment, and retention rules that make it easier to get on and stay on the program. The 2015 Budget Act includes costs of $2.9 billion in fiscal year 2015-16 related to the mandatory expansion. California will split these costs with the federal government, with $1.4 billion of such costs expected to be paid from the General Fund. The mandatory expansion caseload is estimated to be 1.4 million in fiscal year 2015-16.

The optional expansion extended eligibility to adults without children, and parent and caretaker relatives with incomes up to 138 percent of the federal poverty level. The 2015 Budget Act includes costs of $14 billion in fiscal year 2015-16 for the optional Medi-Cal expansion. The federal government has committed to pay nearly 100 percent of the costs of this expansion for the first three years. California will begin contributing to these costs in fiscal year 2016-17 with California's contribution gradually increasing each fiscal year until fiscal year 2020-21, when the state will pay 10 percent of the total costs. By fiscal year 2020-21, the General Fund share for the optional expansion is estimated to be $1.7 billion. The 2015 Budget Act projects optional expansion caseload to be 2.3 million in fiscal year 2015-16.

In-Home Supportive Services (IHSS). The IHSS program provides domestic and related services such as housework, transportation, and personal care services to eligible low-income aged, blind, or disabled persons. These services are provided to assist individuals to remain safely in their homes and prevent institutionalization.

The following table shows IHSS caseload and related General Fund expenditures.

TABLE 14
IHSS Expenditures
(Dollars in Billions)

Fiscal Year	Caseload	General Fund Expenditures
2011-12	432,650	$1.7
2012-13	443,264	1.7
2013-14	425,526	1.9
2014-15[a]	446,341	2.2
2015-16[a]	467,000	2.8[b]

[a] Estimated.

[b] The increase in estimated 2015-16 General Fund expenditures is primarily due to (1) assumed implementation of federal Department of Labor overtime regulations for IHSS in 2015-16; (2) one-time General Fund restoration of prior 7-percent across-the-board reduction to authorized hours of service; and (3) growth in caseload and average service hours per case.

CalWORKs. The California Work Opportunity and Responsibility to Kids ("CalWORKs") program, the state's version of the federal Temporary Assistance for Needy Families ("TANF") program, provides temporary cash assistance to low-income families with children to meet basic needs, such as shelter, food, and clothing. CalWORKs includes specific welfare-to-work requirements and provides supportive services, including child care, to enable adult participants to meet these requirements. Eligibility requirements and benefit levels are established by the state, but counties have flexibility in program design, services, and funding to meet local needs. The federal government pays a substantial portion of welfare benefit costs, subject to a requirement that states provide significant matching funds. Federal law imposes detailed eligibility and programmatic requirements in order for states to be entitled to receive federal funds. Federal law also imposes time limits on program availability for individuals, and establishes certain work requirements. Consistent with the federal law, CalWORKs contains time limits on the receipt of welfare aid. The centerpiece of CalWORKs is the linkage of eligibility to work participation requirements.

The state annually receives a TANF block grant allocation of $3.7 billion from the federal government. To qualify for the TANF funds, the state is required to annually expend a "Maintenance of Effort," which is currently $2.9 billion.

Under federal law, states are required to demonstrate a 50 percent work participation rate among all TANF-aided families. The federal government determined that California failed to meet this requirement for federal fiscal years ("FFYs") 2007 through 2012, and the state is therefore subject to a penalty. The federal government waived the penalty for FFY 2007 and the state is seeking relief from the FFYs 2008, 2009, 2010, 2011, and 2012 penalties, estimated to be approximately $47.7 million, $113.6 million, $179.7 million, $246.1 million, and $312 million, respectively. On June 24, 2014, the federal government approved the state's corrective compliance plan which requires California to meet or exceed federal work participation rate requirements by September 30, 2015, to avoid incurring fiscal penalties.

The following table shows CalWORKs caseload and General Fund expenditures.

TABLE 15
CalWORKs Expenditures
(Dollars in Billions)

Fiscal Year	Caseload	General Fund Expenditures
2011-12[a]	575,988	$1.2
2012-13	559,920	1.5
2013-14[b]	550,928	1.2
2014-15[c] [d]	539,113	0.7
2015-16[c] [d]	525,189	0.7

(a) Beginning in FY 2011-12, CalWORKs General Fund expenditures reflect a $1.1 billion ongoing annual savings as a result of redirecting 1991-92 realignment revenues from mental health to fund CalWORKs grants, pursuant to Chapter 13, Statutes of 2011.

(b) Reflects approximately $300 million General Fund savings through redirecting a portion of 1991-92 realignment revenues from indigent health to CalWORKs, pursuant to Chapter 24, Statutes of 2013.

(c) Reflects anticipated General Fund savings of $725 million in fiscal year 2014-15 and $742 million in fiscal year 2015-16 from redirecting a portion of fiscal year 1991-92 realignment revenue from indigent health to CalWORKs.

(d) Estimated.

SSI/SSP. The federal Supplemental Security Income ("SSI") program provides a monthly cash benefit to eligible seniors and persons with disabilities who meet the program's income and resource requirements. In California, the SSI payment is augmented with a State Supplementary Payment ("SSP") grant. The 2015 Budget Act includes approximately $2.8 billion for the SSI/SSP program from the General Fund for fiscal year 2015-16, 0.8 percent more than the revised fiscal year 2014-15 funding level. The average monthly caseload in this program is estimated to be 1.3 million recipients in fiscal year 2015-16, a 0.6 percent increase over the revised fiscal year 2014-15 projected level.

Developmental Services. The Department of Developmental Services (DDS) provides consumers with developmental disabilities a variety of services and supports that allow them to live and work independently or in supported environments. DDS serves approximately 290,000 individuals in the community and approximately 1,000 individuals in three state-operated developmental centers.

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The following table shows the caseload and related General Fund expenditures for the Department of Developmental Services (excluding capital outlay and Proposition 98 funding).

TABLE 16
Department of Developmental Services Expenditures
(Dollars in Billions)

Fiscal Year	Caseload	General Fund Expenditures
2011-12	251,076	$2.556
2012-13	257,557	2.656
2013-14	275,337	2.797
2014-15[a]	280,570	3.135
2015-16[a]	290,966	3.515

[a] Estimated.

Special Session on Health Care Financing. On June 16, 2015, the Governor called a special session to address the financing of Medi-Cal, IHSS, and developmental disability services. Since 2005, the state has levied a tax on Medi-Cal managed care plans to increase payments to Medi-Cal providers and offset health care costs that would otherwise be paid from the General Fund. The state's current managed care organization (MCO) tax structure, which expires on June 30, 2016, does not comply with new federal requirements that such a tax be broad-based and not limited narrowly to Medi-Cal plans. In the special session, the Governor proposed permanent and sustainable funding beginning in fiscal year 2016-17 to provide at least $1.1 billion annually to stabilize the state's General Fund costs for Medi-Cal, sufficient funding to continue the restoration of a 7 percent reduction of In-Home Supportive Services hours and funding for additional provider payment increases for providers of Medi-Cal and developmental disability services. The funding could come from a proposed modified MCO tax and/or alternative revenue sources.

4. Public Safety

General. CDCR operates 37 youth and adult correctional facilities and 44 youth and adult camps as well as numerous other facilities. The CDCR also contracts for multiple adult parolee service centers and community correctional facilities. The CDCR's infrastructure includes more than 42 million square feet of building space on more than 24,000 acres of land (37 square miles) statewide. The 2015 Budget Act assumes an average daily adult inmate population of 127,990 in fiscal year 2015-16 and an average daily adult parole population of 44,570 in fiscal year 2015-16.

The 2015 Budget Act includes total expenditures (excluding capital outlay) of $10.2 billion ($9.9 billion from the General Fund) for CDCR, including salaries and benefits of approximately $7.4 billion. The 2015 Budget Act continues to include savings from the implementation of Chapter 15, Statutes of 2011 (AB 109). This legislation shifted responsibility for short-term, lower-level offenders from the state to county jurisdictions. In addition, counties are responsible for community supervision of lower-level offenders upon completion of their prison sentences.

Ruling Concerning Prison Population. Pursuant to various rulings issued by a panel of three federal judges (some affirmed by the United States Supreme Court), the state was ordered to reduce its prison population to 137.5 percent of the system's design capacity by February 28, 2016. In January 2015, CDCR met this court-ordered population benchmark because of successful implementation of a variety of court-ordered population reduction measures and approval of Proposition 47 by the voters in November 2014, which required reclassification of certain felonies to misdemeanors (and related resentencing).

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

The 2015 Budget Act includes $1.8 billion from the General Fund for the Receiver's Medical Services and Pharmacy Programs, compared to the 2014 Budget Act, which totaled $1.6 billion from the General Fund.

Citing "significant progress" in improving California's prison medical care, a federal District Court judge in January 2012 ordered California officials to begin planning for the end of the federal Receivership of the state's prison medical programs. On March 10, 2015, the court modified its order to update and clarify the process to transition responsibility for inmate medical care back to the state. This transition process is ongoing.

Five-Year Expenditure Summary

The following table summarizes the major categories of state expenditures, including both General Fund and special fund programs for fiscal years 2009-10 through 2013-14. The information for fiscal year 2014-15 will be part of the State Controller's Budgetary/Legal Basis Annual Report, which is expected to be released by March 2016, coinciding with release of the Audited General Purpose Financial Statements of the State for the Year Ended June 30, 2015.

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TABLE 17
Governmental Cost Funds (Budgetary Basis)
Schedule of Expenditures by Function and Character
Fiscal Years 2009-10 to 2013-14

(Dollars in Thousands)

Function	Fiscal Year 2009-10[e][f]	2010-11[e][f][g]	2011-12[e]	2012-13[e]	2013-14[e]
Legislative, Judicial, Executive					
Legislative	$ 323,371	$ 325,244	$ 331,052	$ 329,903	$ 345,319
Judicial	2,606,012	3,742,539	3,360,882	2,961,759	3,257,190
Executive	1,615,119	1,810,506	1,543,381	1,548,666	1,879,794
State and Consumer Services [a]	1,079,608	1,173,185	1,249,034	1,275,754	622,493
Business, Transportation and Housing					
Business and Housing [a]	215,295	227,899	239,838	211,466	90,082
Transportation[b]	7,178,962	7,109,753	5,452,535	5,950,645	7,389,121
Natural Resources	3,307,987	3,414,859	3,358,016	3,505,612	3,431,142
Environmental Protection	831,753	962,109	1,027,911	907,427	1,000,477
Health and Human Services	31,129,184	41,642,841	41,359,564	44,613,839	46,257,581
Public Safety Programs	7,860,690	9,514,121	7,892,864	8,530,717	9,111,239
Education					
Education – K through 12	33,850,883	33,193,396	32,755,642	39,789,023	38,742,395
Higher Education	9,735,095	10,623,763	9,256,322	9,055,279	10,659,644
Labor and Workforce Development	374,059	370,993	700,449	710,343	726,075
Government Operations [a]	--	--	--	--	888,422
General Government					
General Administration	1,711,273	1,757,991	1,712,184	1,948,034	1,851,530
Debt Service	6,049,251	6,222,307	6,561,871	5,721,714	6,305,806
Tax Relief	438,725	438,082	434,385	427,285	421,734
Shared Revenues	2,151,407	2,231,710	1,997,607	3,660,110	2,082,676
Other Statewide Expenditures	54,058	1,330,757	1,453,787	1,365,657	1,109,007
Expenditure Adjustment for Encumbrances [c]	1,785,703	18,316	2,195,656	(136,097)	30,739
Credits for Overhead Services by General Fund	(362,614)	(417,786)	(485,301)	(592,314)	(642,848)
Statewide Indirect Cost Recoveries	(80,454)	(100,543)	(109,807)	(132,847)	(133,400)
Total	$ 111,855,367	$ 125,592,042	$ 122,287,872	$ 131,651,975	$ 135,426,218
Character					
State Operations	$ 36,673,078	$ 40,451,395	$ 39,579,635	$ 39,122,859	$ 39,266,400
Local Assistance [d]	72,795,422	84,254,039	81,820,212	91,890,033	95,620,340
Capital Outlay	2,386,867	886,608	888,025	639,083	539,478
Total	$ 111,855,367	$ 125,592,042	$ 122,287,872	$ 131,651,975	$ 135,426,218

[a] The Governor's Reorganization Plan (GRP), which became operative on July 1, 2013, cut the number of state agencies from twelve to ten and eliminated or consolidated dozens of departments and entities, thereby making government more efficient and reducing unnecessary spending. The GRP created a new functional category called Government Operations and several departments/functions moved around. The State and Consumer Services and the Business and Housing functions were most affected.

[b] Beginning with fiscal year 2011-12, the Department of Transportation ("DOT") changed the basis of financial reporting from a modified accrual basis to a cash basis for the State Highway Account ("Fund 0042"), the Public Transportation Account ("Fund 0046"), the Traffic Congestion Relief Fund ("Fund 3007"), the Transportation Investment Fund ("Fund 3008"), and the Transportation Deferred Investment Fund ("Fund 3093"). This change resulted in a reduction of the reported expenditures by DOT in these funds for fiscal year 2011-12 due to expenditures incurred, but not paid in fiscal year 2011-12 not being accrued, and the fiscal year 2010-11 reported accruals being reversed. Therefore, in fiscal year 2012-13, reported expenditures increased. The change to cash basis financial reporting for these funds was done at the direction of the Department of Finance, in accordance with the following statutes: Streets and Highways Code Section 183(c), for Fund 0042; Public Utilities Code Section 99310.6, for Fund 0046; Government Code Section 14556.5(b), for Fund 3007; Revenue and Taxation Code Section 7104.3, for Fund 3008; and Revenue and Taxation Code Section 7105(g), for Fund 3093.

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[c] Large variances between fiscal years are normal. Fiscal years 2009-10, 2010-11 and 2011-12 variances are due to the prior year reversal of over encumbered expenditures. In fiscal years 2011-12 and 2012-13 the change to cash basis financial reporting by the DOT in Funds 0042, 0046, 3007, 3008, and 3093 accounts for most of the large variance between the two fiscal years.

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

[e] Executive Orders 10/11-A, 11/12-A, 12/13-A, 13/14-A and 14/15-A were issued by the Department of Finance, as authorized under Control Section 12.45 of the Budget Acts of 2009, 2010, 2011, 2012 and 2013, respectively, and pursuant to Government Code Sections 12472.5 and 13302, to defer the June 2010, June 2011, June 2012, June 2013 and June 2014 payroll expenditures for various governmental and nongovernmental cost funds to July 2010, July 2011, July 2012, July 2013 and July 2014. This affected all state departments paid through the uniform payroll system.

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

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

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

Budget Reserves

1. *Special Fund for Economic Uncertainties*

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

There is a continuous appropriation authorizing the State Controller to transfer the unencumbered balance of the General Fund to the SFEU as of the end of each fiscal year. However, if, at the end of any fiscal year in which it has been determined revenues exceed the amount that may be appropriated, then the transfer shall be reduced by the amount of the excess revenues. The estimates of the transfer shall be made jointly by the LAO and the Department of Finance. See "STATE FINANCES—OTHER ELEMENTS– State Appropriations Limit." In certain circumstances, moneys in the SFEU may be used in connection with disaster relief.

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

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

2. *Budget Stabilization Account*

Proposition 58, approved in March 2004, created the BSA as a second budgetary reserve and established the process for transferring General Fund revenues to the BSA. In fiscal year 2014-15, $1.606 billion was transferred from the General Fund to the BSA under the provisions of Proposition 58 (the balance in the BSA had been $0 since fiscal year 2008-09). Beginning with fiscal year 2015-16, however, the BSA provisions of Proposition 58 have been superseded by Proposition 2, which was approved by the voters in November 2014.

Proposition 2 provides for both paying down debt and other long-term liabilities, and saving for a rainy day by making specified deposits into the BSA. In response to the volatility of capital gains revenues and the resulting boom-and-bust budget cycles, Proposition 2 takes into account the state's heavy dependence on the performance of the stock market and the resulting capital gains. Beginning with fiscal year 2015-16, Proposition 2:

- Requires a calculation of capital gains revenues in excess of 8 percent of General Fund tax revenues that are not required to fund a Proposition 98 increase. In addition, it requires a calculation of 1.5 percent of annual General Fund revenues. The sum of the amounts so calculated will be applied for the purposes set forth below.

- Requires half of each year's calculated amount for the next 15 years be used to pay specified types of debt or other long-term liabilities. The other half must be deposited into the BSA. After the first 15 years, at least half of each year's deposit will be deposited in the BSA, with the remainder used for supplemental debt or liabilities payments at the option of the Legislature and to the extent not so used also deposited into the BSA.

- Allows the withdrawal of funds from the BSA only for a disaster or if spending remains at or below the highest level of spending from the past three years. The maximum amount that can be withdrawn in the first year of a recession is limited to half of the BSA balance.

- Creates the Public School System Stabilization Account ("PSSSA"), a special fund that serves as a Proposition 98 reserve, in which spikes in funding will be saved for future years. This will smooth school spending and thereby minimize future cuts. This reserve will make no changes to the Proposition 98 calculations, and it will not begin to operate until the existing maintenance factor is fully paid off.

- Sets the maximum size to be reserved in the BSA at 10 percent of General Fund revenues. When the amount in the BSA is equal to its then maximum size any amount that otherwise would have been deposited in the BSA may be spent only on infrastructure, including deferred maintenance.

Proposition 2 also requires that the state provide a multiyear budget forecast to help better manage the state's longer term finances.

Under current projections, Proposition 2 will result in $7.1 billion in savings and $5.5 billion in additional reductions of debts and liabilities in its first four years of operation. See Table 6. If capital gains increase above current projections during that period, even more money may go into the BSA.

STATE FINANCES – OTHER ELEMENTS

Pension Systems

The state participates in two principal retirement systems, CalPERS and CalSTRS. In each case, the state makes annual contributions from the General Fund, and additional contributions are made by other employers which are part of the systems, and by employees. The state's annual contribution to CalPERS is determined by the CalPERS Board of Administration, and depends upon a variety of factors, including future investment performance, actuarial assumptions, and additional potential changes in retirement benefits. The state's annual contribution to CalSTRS is set by statute, and the CalSTRS Board has limited authority to adjust the state's contribution. The state has always made its mandatory contributions. For fiscal year 2015-16, the state's contribution to CalPERS is $2.9 billion and its contribution to CalSTRS is $1.9 billion.

Both systems currently have unfunded liabilities in the tens of billions of dollars, and both systems have taken steps in recent years to address these gaps (such as by lowering the estimated investment return on system assets), which will result in increased state contributions in future years. Detailed information about the two retirement systems, including information regarding the unfunded liabilities of each system, is contained in EXHIBIT 1 – "PENSION SYSTEMS."

Retiree Health Care Costs

In addition to a pension, as described in EXHIBIT 1 – "PENSION SYSTEMS," the state also provides retiree health care and dental benefits to its retired employees and their spouses and dependents (when applicable), and, except as otherwise described below, utilizes a "pay-as-you-go" funding policy. These benefits are referred to as "Other Post-Employment Benefits" or "OPEB."

As of June 30, 2014, approximately 168,200 retirees were enrolled to receive health benefits and 139,000 to receive dental benefits. Generally, employees vest for those benefits after serving 10 years with the state. Additional information on the State's OPEB plan can be found in the Comprehensive Annual Financial Report for the fiscal year ended June 30, 2014 included as APPENDIX F to this Official Statement.

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

On December 16, 2014, the State Controller's Office released the state's latest OPEB actuarial valuation report by the private actuarial firm, Gabriel, Roeder, Smith & Company, which was tasked with calculating the state's liability for these benefits. The actuarial valuation contained in the report covers the cost estimates for existing employees, retirees and dependents. The main objective of the report was to estimate the Actuarial Accrued Liability ("AAL"), which is the present value of future retiree healthcare costs attributable to employee service earned in prior fiscal years. The report was based on a variety of data and economic, demographic and healthcare trend assumptions described in the report. The primary assumption influencing annual OPEB costs and AAL is the assumed rate of return or discount rate on assets supporting the retiree healthcare liability. Based on PMIA's historical returns, investment policy and expected future returns, a discount rate of 4.25 percent was selected for the pay-as-you-go funding policy. The economic assumptions for price and wage inflation are 2.75 percent and 3 percent, respectively.

The report looked at three different scenarios: (i) continuation of the "pay-as-you-go" policy; (ii) a "full funding" policy under which assets would be set aside to prepay the future obligations, similar to the way in which pension obligations are funded, and (iii) a "partial funding" policy, a hybrid of the two scenarios. According to the state's OPEB actuarial valuation report, as of June 30, 2014, the pay-as-you go funding policy results in an AAL of $71.81 billion as of June 30, 2014, of which $71.77 billion is unfunded. Additionally, the pay-as-you go funding policy results in an annual OPEB cost of $5.14 billion, estimated employer contributions of $1.87 billion and an expected net OPEB obligation of $22.63 billion for fiscal year 2014-15. The annual required contribution for fiscal year 2015-16 is estimated at $5.62 billion.

The actuarial liability increased from $64.58 billion as of June 30, 2013, to $71.81 billion as of June 30, 2014. If the previous assumptions had been realized, the actuarial liability would have increased to $67.99 billion as of June 30, 2014. The key factors contributing to a $3.82 billion increase in expected actuarial liabilities had the previous assumptions been realized are:

- Favorable healthcare claims experience and plan design changes, resulting in a decrease in actuarial liabilities of approximately $3.32 billion.

- Demographic experience did not change the actuarial liabilities significantly. There were most likely offsetting gains and losses that led to this minimal change. Examples of demographic experience gains include: fewer members retiring than assumed, members retiring later than assumed and members not living as long as assumed. Examples of demographic experience losses include: more members retiring than assumed, members retiring earlier than assumed and members living longer than assumed.

- Subsequent to the June 30, 2013, GASB No. 45 actuarial valuation, CalPERS performed a fourteen-year experience study where all pension-related assumptions were reviewed. Many of the assumptions were updated to reflect actual experience over the fourteen-year period. These changes have been adopted for this valuation. The assumption changes increased liabilities by approximately $7.14 billion. The largest change was due to the updating of the mortality table used to model post-retirement deaths. Under the new assumptions members are expected to live longer. The change in demographic assumptions is the largest contributor to the loss in actuarial liability.

The valuation depended primarily on the interest discount rate assumption of 4.25% used to develop the present value of future benefits and on the assets available to pay benefits. The State Controller's Office plans to issue an actuarial valuation report annually.

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

TABLE 18
OPEB Pay-As-You-Go Funding
Fiscal Years 2010-11 to 2014-15

(Dollars in Billions)

Fiscal Year	Annual OPEB Cost	Net Employer Contribution	Percentage of Annual OPEB Cost Contribution	Net OPEB Obligation	Unfunded Actuarial Accrued Liability[b]	Unfunded Actuarial Accrued Liability as Percent of Payroll[b]
2010-11	$4.21	$1.58	38%	$9.88	$62.14	345%
2011-12	4.74	1.72	36	12.91	63.84	341
2012-13	4.99	1.78	36	16.12	64.57	358
2013-14	5.12	1.87	37	19.36	71.77	373
2014-15[a]	5.13	1.87	36	22.63	N/A	N/A

[a] Net employer contribution and Net OPEB Obligation estimated for fiscal year ending June 30, 2015.

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

Source: State of California OPEB Valuation as of June 30, 2014.

The following table illustrates the state's budget for post-employment benefits from fiscal years 2010-11 to 2015-16 and does not reflect any future liability for current employees or annuitants. It is anticipated that these costs will continue to grow in the future. The employer contribution for health premiums maintains the average 100/90 percent contribution formula established in the Government Code. Under this formula, the state averages the premiums of the four largest health benefit plans in order to calculate the maximum amount the state will contribute toward each retiree's health benefits. The state also contributes 90 percent of this average for the health benefits of each of the retiree's dependents. Generally, with 10 years of service credit, employees are entitled to 50 percent of the state's full contribution. This rate increases by 5 percent per year and with 20 years of service, the employee is entitled to the full 100/90 formula. CSU employees fully vest for the 100/90 formula at 5 years of service. Employees in bargaining unit 12, hired after January 1, 2011, are subject to a longer vesting period.

TABLE 19
Actual Costs/Budget for Other Post-employment Benefits
Fiscal Years 2010-11 through 2015-16

(Dollars in Thousands)

Fiscal Year	State Employees All Funds[c]	State Employees General Fund	CSU Employees All General Fund	Total Contributions All Funds	Total General Fund Contributions
2010-11	$1,386,839	$1,351,008	N/A	$1,386,839	$1,351,008
2011-12	1,504,928	1,466,528	N/A	1,504,928	1,466,528
2012-13	1,365,234	1,337,089	222,135	1,587,369	1,559,224[b]
2013-14	1,382,717	1,378,709	225,332	1,608,049	1,604,041
2014-15[a]	1,521,070	1,515,070	263,062	1,784,132	1,778,132
2015-16[a]	1,621,612	1,617,012	267,151	1,888,763	1,884,163

(a) Estimated Contributions.

(b) Contributions for post-employment benefits are included for all years displayed in this table. However, beginning in fiscal year 2012-13, CSU contributions are split out and identified separately.

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

Source: State of California, Department of Finance.

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

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

Ongoing Efforts

In 2015, the Administration initiated a comprehensive strategy to eliminate the OPEB unfunded AAL over approximately 30 years by increasing prefunding shared equally between state employers and employees and reducing the cost structure of employee and retiree health care benefits. The Administration is pursuing the prefunding strategy, as well as changes to retiree health benefits for new employees, through the collective bargaining process. Statutory language passed as part of the 2015-16 Budget contains the funding policy and framework designed to support the elimination of the unfunded AAL.

The centerpiece of the strategy is a collective bargaining proposal to negotiate contributions for OPEB prefunding equivalent to the normal costs of those benefits. The goal is to have the additional contributions equally shared between employers and employees and phased in over a three-year period. Collective bargaining began in 2015 with four bargaining units with contracts expiring in 2015 and remains ongoing. The Administration intends to pursue similar negotiations with other collective bargaining units upon renewal of their contracts over the next three years. The Department of Finance estimates that the state's share of prefunding for Executive Branch employees will be approximately $600 million annually once fully implemented. (The "Executive Branch" generally excludes employees in the legislative and judicial branches of the state government, as well as employees of CSU and UC. See "OVERVIEW OF STATE GOVERNMENT—Organization of State Government.")

The funding plan to eliminate the OPEB unfunded actuarial accrued liability assumes that the state continues to pay for retiree health benefits on a pay-as-you-go basis while assets are accumulated in a trust fund, and that no investment income will be used to pay for benefits until the plan is fully funded. Statutory language passed as part of the 2015-16 Budget contains the framework for this funding plan preventing the use of investment income from the retiree health care trust fund for the payment of retiree health benefits until the earlier of:

1. The date the state Bargaining Unit subaccount within the trust fund reaches a 100 percent funded ratio.

2. July 1, 2046—the date the actuarial calculation of the Administration's prefunding plan is expected to reach a 100 percent funded ratio.

The Administration's collective bargaining agenda also includes proposals to extend the vesting period for new employees to qualify for retiree health care contributions, and reduce the employer subsidies for the retiree health care contributions for new employees.

Unemployment Insurance

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

Due to the high rate of unemployment during the recession, the employer contributions were not sufficient to cover the cost of the benefits to claimants. Commencing in January 2009, in accordance with federal law, the state began to fund deficits in the state UI Fund through a federal loan to support benefit payments. The UI Fund deficit was $9.7 billion at the end of calendar year 2013 and $8.6 billion at the end of calendar year 2014 and is projected to be $7.0 billion at the end of calendar year 2015.

Pursuant to federal law, if the state is unable to repay a loan within the same year it is taken, state funds must be used to pay the annual interest payments on the borrowed funds. However, repayment of principal on this federal UI loan is strictly an employer responsibility, and not a liability of the state's General Fund. To ensure that the federal loan is repaid, when a state has an outstanding loan balance for two consecutive years, the federal government reduces the Federal Unemployment Tax Act ("FUTA") credit it gives to employers. This is equivalent to an increase in the FUTA tax on employers, and has the effect of paying off the principal of the federal UI loan. These changes have already started and will increase annually until the loan is repaid, which is projected to be in 2019. Commencing in fiscal year 2011-12, the state has been required to pay interest on these loans. The September 2014 interest payment of $217.4 million was paid by the General Fund and the 2015 Budget Act provides $174.5 million from the General Fund to make the 2015 interest payment.

State Appropriations Limit

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

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

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

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

An estimate of the Appropriations Limit is included in the Governor's Budget, and is thereafter subject to the budget process and established in the Budget Act.

The following table shows the Appropriations Limit for fiscal years 2011-12 through 2015-16.

TABLE 20
State Appropriations Limit
(Dollars in Millions)

	Fiscal Year				
	2011-12	**2012-13**	**2013-14**	**2014-15**	**2015-16**
State Appropriations Limit	$81,726	$84,221	$89,716	$89,902	$94,042
Appropriations Subject to Limit	-61,952	-71,702	-71,352	-78,692[a]	-84,193[a]
Amount (Over)/Under Limit	$19,774	$12,519	$18,364	$11,210[a]	$9,849[a]

[a] Estimated/projected.

Source: State of California, Department of Finance.

Local Government Impacts on State Finances

The primary units of local government in California are the 58 counties, which range in population from approximately 1,200 in Alpine County to approximately 9.8 million in Los Angeles County. As summarized below, the fiscal condition of local governments and the relationship between local and state government finances can have an impact on the state's financial condition and flexibility.

1. Constitutional and Statutory Limitations

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

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

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

The 2004 Budget Act, related legislation and the enactment of Proposition 1A of 2004 and Proposition 22 in 2010 dramatically changed the state-local fiscal relationship. These constitutional and statutory changes implemented an agreement negotiated between the Governor and local government officials (the “state-local agreement”) in connection with the 2004 Budget Act. One change relates to the reduction of the vehicle license fee (“VLF”) rate from 2 percent to 0.65 percent of the market value of the vehicle. In order to protect local governments, which had previously received all VLF revenues, the 1.35 percent reduction in VLF revenue to cities and counties from this rate change was backfilled (or offset) by an increase in the amount of property tax revenues they receive. This worked to the benefit of local governments because the backfill amount annually increases in proportion to the growth in property tax revenues, which has historically grown at a higher rate than VLF revenues, although property tax revenues declined between fiscal years 2009-10 and 2011-12. This arrangement is proposed to continue without change in the 2015 Budget Act.

As part of the state-local agreement, voters at the November 2004 election approved Proposition 1A (“Proposition 1A of 2004”). Proposition 1A of 2004 amended the state Constitution to, among other things, reduce the Legislature’s authority over local government revenue sources by placing restrictions on the state’s access to local governments’ property, sales, and VLF revenues as of November 3, 2004.

Proposition 22, adopted on November 2, 2010, supersedes Proposition 1A of 2004 and prohibits any future borrowing by the state from local government funds, and generally prohibits the Legislature from making changes in local government funding sources. Allocation of local transportation funds cannot be changed without an extensive process.

2. *<u>Property Tax Revenues</u>*

Although the property tax is a local revenue source, the amount of property tax generated each year has a substantial impact on the state budget because local property tax revenues allocated to K-14 schools typically offset General Fund expenditures.

Statewide property tax revenues are estimated to increase 6.10 percent in fiscal year 2014-15 and 5.52 percent in fiscal year 2015-16. See Table 10 (Proposition 98 Funding) for information on the impact of these growth rates on the funding of the Proposition 98 guarantee. Property tax estimates used in the calculation of the guarantee are based on growth in statewide property taxes, but also include other factors such as excess tax, redevelopment agency payments, and the shift of property taxes from local governments to K-14 schools (Educational Revenue Augmentation Fund).

3. *Dissolved Redevelopment Agency Funds*

In 2011, the Legislature enacted a bill that eliminated redevelopment agencies ("RDAs") and redirected property tax revenue that would have gone to RDAs to other local taxing entities, including cities, counties, school and community college districts, and special districts.

On December 29, 2011, the California Supreme Court upheld the law against various constitutional challenges and, in accordance with the Court's order, RDAs were dissolved on February 1, 2012, and their functions have been taken over by successor agencies tasked with winding down the RDAs' affairs. Property tax revenues that would have been directed to the RDAs are used to make pre-existing "pass through" payments to local agencies, and by the successor agencies for retirement of the RDAs' debts (also known as enforceable obligations), and for limited administrative costs. The remaining revenues are distributed to the local taxing entities.

Revenues distributed to school and community college districts result in corresponding savings for the state's General Fund. For the 2015 Budget Act, Proposition 98 General Fund savings are anticipated to be $964 million in fiscal year 2014-15 and projected to be $1.1 billion in fiscal years 2015-16 and 2016-17. Proposition 98 General Fund savings are anticipated to be at least $1 billion in each fiscal year after fiscal year 2016-17, with annual growth proportionate to the changes in property tax growth, and the rate at which the enforceable obligations of the former RDAs are retired.

Various local governments have disputed the implementation of the dissolution law and litigation is pending and expected to be filed in the future on this subject. See "LITIGATION – Budget-Related Litigation – Actions Challenging Statutes Which Reformed California Redevelopment Law."

4. *Realigning Services to Local Governments*

The 2011 Budget Act included a major realignment of public safety programs from the state to local governments ("AB 109"). The realignment was designed to move program and fiscal responsibility to the level of government that can best provide the service, eliminate duplication of effort, generate savings, and increase flexibility. The implementation of the Community Corrections Grant Program authorized by AB 109 moved lower-level offenders from state prisons to county supervision and reduced the number of parole violators in the state's prisons. Other realigned programs include local public safety programs, mental health, substance abuse, foster care, child welfare services, and adult protective services. The 2011 Realignment is funded through two sources: (1) a state special fund sales tax of 1.0625 percent (projected to total $6.7 billion in fiscal year 2015-16) and (2) $579.5 million in vehicle license fees (for fiscal year 2015-16). As a result of the realignment, the state expects General Fund savings from the realigned programs to be about $2.6 billion annually beginning in fiscal year 2011-12. In fiscal year 2011-12, about $2.2 billion of these savings was achieved from a reduction in the Proposition 98 Guarantee, and that figure is currently estimated to grow to $2.7 billion in fiscal year 2014-15 and $2.7 billion in fiscal year 2015-16.

CASH MANAGEMENT

Traditional Cash Management Tools

General. The majority of the state's General Fund receipts are received in the latter part of the fiscal year. Disbursements from the General Fund occur more evenly throughout the fiscal year. The state's cash management program customarily addresses this timing difference by making use of internal borrowing (see "– Internal Borrowing") and by issuing short-term notes in the capital markets (see "– External Borrowing").

Internal Borrowing. The General Fund is currently authorized by law to borrow for cash management purposes from more than 700 of the state's approximately 1,300 other funds in the State Treasury (the "special funds" and each a "special fund"). Total borrowing from special funds must be approved quarterly by the Pooled Money Investment Board ("PMIB"). The State Controller submits an authorization request to the PMIB quarterly, based on forecasted available funds and borrowing needs. The Legislature may from time to time adopt legislation establishing additional authority to borrow from special funds. As of the 2015 Budget Act, the General Fund is projected to have up to approximately $27 billion of internal funds (excluding the BSA and the SFEU) available during fiscal year 2015-16. See "—Inter-Fund Borrowings" for a further description of this process.

One fund from which moneys may be borrowed to provide additional cash resources to the General Fund is the BSA. While during fiscal years 2008-09 through 2013-14 there were no funds available in the BSA, the BSA is now funded at a projected $3.5 billion in fiscal year 2015-16. The state also may transfer funds into the General Fund from the SFEU, which is not a special fund. See "—Inter-Fund Borrowings" and "STATE FINANCES—REVENUES, EXPENDITURES AND RESERVES – Budget Reserves" for a further description of this process.

External Borrowing. External borrowing is typically done with revenue anticipation notes ("RANs") that are payable not later than the last day of the fiscal year in which they are issued. Prior to the current fiscal year, RANs had been issued in all but one fiscal year since the mid-1980s and have always been paid at maturity. No RANs are planned in fiscal year 2015-16. See "—Cash Management Borrowings." The state also is authorized under certain circumstances to issue revenue anticipation warrants ("RAWs") that are payable in the succeeding fiscal year. The state issued RAWs to bridge short-term cash management shortages in the early 1990's and early 2000's. See "—State Warrants – Reimbursement Warrants" for more information on RAWs.

RANs and RAWs are both payable from any "Unapplied Money" in the General Fund on their maturity date, subject to the prior application of such money in the General Fund to pay Priority Payments. "Priority Payments" consist of: (i) the setting apart of state revenues in support of the public school system and public institutions of higher education (as provided in Section 8 of Article XVI of the state Constitution); (ii) payment of the principal of and interest on general obligation bonds and general obligation commercial paper notes of the state as and when due; (iii) a contingent obligation for General Fund payments to local governments for certain costs for realigned public safety programs if not provided from a share of state sales and use taxes, as provided in Article XIII, Section 36 of the Constitution, enacted by Proposition 30 of 2012 (see "STATE FINANCES—REVENUES, EXPENDITURES AND RESERVES—Restrictions on Raising or Using General Fund Revenues"); (iv) reimbursement from the General Fund to any special fund or account to the extent such reimbursement is legally required to be made to repay borrowings therefrom pursuant to Government Code Sections 16310 or 16418; and (v) payment of state employees' wages and benefits, state payments to pension and other state employee benefit trust funds, state Medi-Cal claims, lease payments to support lease-revenue bonds, and any amounts determined by a court of competent jurisdiction to be required by federal law or the state Constitution to be paid with state warrants that can be cashed immediately. See "—State Warrants."

Inter-Fund Borrowings

Inter-fund borrowing is used to meet temporary imbalances of receipts and disbursements in the General Fund. In the event the General Fund is or will be exhausted, the State Controller is required to notify the Governor and the PMIB (comprised of the Director of Finance, the State Treasurer and the State Controller). The Governor may then order the State Controller to direct the transfer of all or any part of the moneys not needed in special funds to the General Fund, as determined by the PMIB. All money so transferred must be returned to the special fund from which it was transferred as soon as there is sufficient money in the General Fund to do so. Transfers cannot be made which will interfere with the objective for which such special fund was created, or from certain specific funds.

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

Enactment of Proposition 22 in November 2010 prohibited future inter-fund borrowing from certain transportation funds. However, legislation was enacted on February 3, 2012 to clarify the intent of Proposition 22, making those transportation funds available for short-term cash management borrowing purposes.

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

The following table shows internal borrowable resources available for temporary cash management loans to the General Fund on June 30 of each of the fiscal years 2011-12 through 2014-15 and estimates the amount currently available based on the 2015-16 Budget. See EXHIBIT 2 to APPENDIX A. The amount of internal borrowable resources fluctuates throughout the year.

TABLE 21
Internal Borrowable Resources
(Cash Basis)

(Dollars in Millions)

	June 30				
	2012	**2013**	**2014**	**2015**	**2016[(a)]**
Available Internal Borrowable Resources	$20,824.3	$21,215.3	$23,761.5	$28,291.3	$31,590.6
Outstanding Loans					
From Special Fund for Economic Uncertainties	474.9	948.2	0	0	1,115.7
Budget Stabilization Account				0	3,460.4
From Special Funds and Accounts	9,118.4	1,486.7	0	0	255.9
Total Outstanding Internal Loans	(9,593.3)	(2,434.9)	0	0	(4,832.0)
Unused Internal Borrowable Resources	$11,231.0	$18,780.4	$23,761.5	$28,291.3	$26,758.6

[(a)] Estimated.
Source: Years ended June 30, 2011 through June 30, 2015: State of California, Office of the State Controller.
Year ending June 30, 2016: State of California, Department of Finance.

Cash Management Borrowings

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

The following table shows the amount of RANs issued in the past five fiscal years. No RANs are planned in the current fiscal year.

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TABLE 22
State of California Revenue Anticipation Notes Issued
Fiscal Years 2010-11 to 2014-15

(Dollars in Billions)

Fiscal Year	Type	Principal Amount	Date of Issue	Maturity or Redemption Date
2010-11	Interim Notes	$6.7	October 28, 2010	November 23, 2010*
	Notes Series A-1	2.25	November 23, 2010	May 25, 2011
	Notes Series A-2	7.75	November 23, 2010	June 28, 2011
2011-12	Interim Notes	5.4	July 28, 2011	September 22, 2011*
	Notes Series A-1	0.5	September 22, 2011	May 24, 2012
	Notes Series A-2	4.9	September 22, 2011	June 26, 2012
	Notes Series B	1.0	February 22, 2012	June 28, 2012
2012-13	Notes Series A-1	2.5	August 23, 2012	May 30, 2013
	Notes Series A-2	7.5	August 23, 2012	June 20, 2013
2013-14	Notes Series A-1	1.5	August 22, 2013	May 28, 2014
	Notes Series A-2	4.0	August 22, 2013	June 23, 2014
2014-15	Notes	2.8	September 23, 2014	June 22, 2015

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

Cash Management in Fiscal Years 2014-15 and 2015-16

The state entered the 2014-15 fiscal year in the strongest cash position since the start of the recession in 2008. For the first time since fiscal year 2007-08, the state began a fiscal year without any internal borrowings, and a positive cash balance in the General Fund of $1.922 billion. The state managed its cash flow needs for fiscal year 2014-15 entirely through the use of internal borrowing and an external RANs borrowing of $2.8 billion, the smallest RANs borrowing since fiscal year 2006-07.

The state's cash position continues to be strong entering fiscal year 2015-16, as the General Fund ended the previous year with a positive cash balance of $2.529 billion. The state's cash flow projections for fiscal year 2015-16 indicate that internal borrowings will be sufficient and available to meet the normal peaks and valleys of the state's cash needs, while maintaining a cushion at all times of at least $2.5 billion. Accordingly, the state does not plan to use any external RANs borrowing in fiscal year 2015-16, only the second time this has occurred since the commencement of annual RANs borrowings in the early 1980s.

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

Other Cash Management Tools

The state has employed additional cash management measures during some fiscal years; all of the following techniques were used at one time or another during the last several fiscal years, but none of them is planned to be used in fiscal year 2015-16.

- The State Controller has delayed certain types of disbursements from the General Fund.
- Legislation was enacted increasing the state's internal borrowing capability, and the state has increased the General Fund's internal borrowings. See " – Inter-Fund Borrowings."
- Legislation has been enacted deferring some of the state's disbursements until later in the then-current fiscal year, when more cash receipts are expected.
- The issuance of registered warrants (commonly referred to as "IOUs") because of insufficient cash resources (last occurred in 2009). See " – State Warrants" for an explanation of registered warrants.

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

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

State Warrants

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

1. Registered Warrants

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

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

State law generally requires that registered warrants be redeemable in the order they are issued but not prior to their maturity date, if any. The state last issued registered warrants in 2009. The State Controller was able to manage cash resources to ensure that higher Priority Payments, such as for schools and debt service, were made on time when registered warrants were issued. The issuance of the registered warrants permitted the state to pay Priority Payments with regular warrants which could be cashed.

2. Reimbursement Warrants

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

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

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

3. Refunding Reimbursement Warrants

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

STATE INDEBTEDNESS AND OTHER OBLIGATIONS

General

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

Capital Facilities Financing

1. General Obligation Bonds

The state Constitution prohibits the creation of general obligation indebtedness of the state unless a bond measure is approved by a majority of the electorate voting at a general election or a direct primary. Each general obligation bond act provides a continuing appropriation from the General Fund of amounts for the payment of debt service on the related general obligation bonds, subject under state law only to the prior application of moneys in the General Fund to the support of the public school system and public institutions of higher education. Under the state Constitution, appropriations to pay debt service on any general obligation bonds cannot be repealed until the principal of and interest on such bonds have been paid. See "STATE FINANCES—REVENUES, EXPENDITURES AND RESERVES—State

Expenditures." Certain general obligation bond programs, called "self-liquidating bonds," receive revenues from specified sources so that moneys from the General Fund are not expected to be needed to pay debt service, but the General Fund will pay the debt service, pursuant to the continuing appropriation contained in the bond act, if the specified revenue source is not sufficient. The principal self-liquidating bond program is the veterans general obligation bonds, supported by mortgage repayments from housing loans made to military veterans.

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

A summary of the general obligations bonds outstanding as well as authorized by the voters but unissued, as of July 1, 2015, is set forth in the following table. For greater detail, see the table "Authorized and Outstanding General Obligation Bonds" following the caption "STATE DEBT TABLES." Monthly updates of the State Debt Tables are posted on the website of the State Treasurer.

General Obligation Bonds
(as of July 1, 2015)

Authorized and Outstanding		**Authorized but Unissued***	
Primarily Payable from General Fund	Self-Liquidating	Primarily Payable from General Fund	Self-Liquidating
$76.0 billion	$1.6 billion†	$29.5 billion	$596 million

* May first be issued as commercial paper notes (see "General Obligation Commercial Paper Program" below).

† $930 million of ERBs were defeased on August 5, 2015 and are no longer outstanding; see "Economic Recovery Bonds" below.

2. Variable Rate General Obligation Bonds

The state's general obligation bond law permits the state to issue as variable rate indebtedness up to 20 percent of the aggregate amount of its long-term general obligation bonds outstanding. These bonds are described generally in the following table and represent about 4.67 percent of the state's total outstanding general obligation bonds. With respect to the $1,050,000,000 of variable rate general obligation bonds having mandatory tender dates, if these bonds cannot be remarketed on their respective scheduled mandatory tender dates, there is no default but the interest rate on the series of such bonds not remarketed on such date would be increased in installments thereafter until such bonds can be remarketed or refunded or are paid at maturity.

Type of Bonds	Outstanding Principal Amount ($000) as of July 1, 2015	Current Variable Rate Interest Mode	Liquidity Support[(a)]	Other Information
General Obligation	$2,473,690	Daily/Weekly VRDO	Letters of Credit	
General Obligation	400,000	Indexed Floating Rate to Respective Mandatory Tender Dates	None	Mandatory Tenders on December 1, 2016, December 1, 2017, May 1, 2018 and December 3, 2018
General Obligation	98,100	Indexed Floating Rate to Respective Maturity Dates	None	Fixed Maturities on each May 1 in the years 2017 through 2020
General Obligation	650,000	Fixed Term Rate to Respective Mandatory Tender Dates	None	Mandatory Tenders on December 1, 2016, December 1, 2017 and December 2, 2019
TOTAL	$3,621,790			

(a) See "Bank Arrangements Table."
Source: State of California, Office of the State Treasurer

The state is obligated to redeem, on the applicable purchase date, any weekly and daily variable rate demand obligations ("VRDOs") tendered for purchase if there is a failure to pay the related purchase price of such VRDOs on such purchase date from proceeds of the remarketing thereof, or from liquidity support related to such VRDOs. The state has not entered into any interest rate hedging contracts in relation to any of its variable rate general obligation bonds.

3. *General Obligation Commercial Paper Program*

Pursuant to legislation enacted in 1995, voter-approved general obligation indebtedness may be issued either as long-term bonds or, for some but not all bond acts, as commercial paper notes. Commercial paper notes may be renewed or may be refunded by the issuance of bonds. It is currently the state's policy to use commercial paper notes to provide flexibility for bond programs, such as to provide interim funding for voter-approved projects and to facilitate refunding of variable rate bonds into fixed rate bonds. Commercial paper notes are not included in the calculation of permitted variable rate indebtedness described under "Variable Rate General Obligation Bonds" and are not included in the figures provided above in the section "General Obligation Bonds." A total of $2.225 billion in principal amount of commercial paper notes is currently authorized under agreements with various banks, including an agreement for the direct purchase of up to $500 million of commercial paper notes by a bank. See "BANK ARRANGEMENTS TABLE" at the end of this PART II for a list of the credit agreements supporting the commercial paper program.

4. *Bank Arrangements*

In connection with VRDOs and the commercial paper program ("CP"), the state has entered into a number of reimbursement agreements or other credit agreements with a variety of financial institutions as set forth in "BANK ARRANGEMENTS TABLE." These agreements include various representations and covenants of the state, and the terms (including interest rates and repayment schedules) by which the state would be required to pay or repay any obligations thereunder (including drawings resulting from any failed remarketings). To the extent that VRDOs or CP offered to the public cannot be remarketed over an extended period (whether due to downgrades of the credit ratings of the institution providing credit enhancement or other factors) and the applicable financial institution is obligated to purchase VRDOs or CP, interest payable by the state pursuant to the reimbursement agreement or credit agreement would generally increase over current market levels relating to the VRDOs or CP, and, with respect to VRDOs the principal repayment period would generally be shorter (typically less than five years) than the repayment period otherwise applicable to the VRDOs. In addition, after the occurrence of certain events of default as specified in a credit agreement, payment of the related VRDOs may be further accelerated and payment of related CP, as applicable, may also be accelerated and interest payable by the State on such VRDOs or CP could increase significantly.

5. *Lease-Revenue Obligations*

In addition to general obligation bonds, the state acquires and constructs capital facilities through the issuance of lease-revenue obligations (also referred to as lease-purchase obligations). Such borrowing must be authorized by the Legislature in a separate act or appropriation. Under these arrangements, the State Public Works Board ("SPWB"), another state or local agency or a joint powers authority issued bonds to pay for the acquisition or construction of facilities such as office buildings, university buildings, courthouses or correctional institutions. These facilities are leased to a state agency, the California State University or the Judicial Council under a long-term lease which provides the source of revenues which are pledged to the payment of the debt service on the lease-revenue bonds. Under applicable court decisions, such lease arrangements do not constitute the creation of "indebtedness" within the meaning of the state constitutional provisions that require voter approval. For purposes of this APPENDIX A and the tables under "STATE DEBT TABLES," the terms "lease-revenue obligation," "lease-revenue financing," "lease-purchase obligation" or "lease-purchase" mean principally bonds or certificates of participation for capital facilities where the lease payments providing the security are payable from the operating budget of the respective lessees, which are primarily, but not exclusively, derived from the General Fund. A summary of the lease-revenue bonds outstanding as well as those authorized by the Legislature but unissued, as of July 1, 2015, is set forth in the following table.

Lease-Revenue Obligations
(as of July 1, 2015)

Outstanding General Fund Supported Issues	Authorized but Unissued
$11.0 billion	$4.0 billion

The tables under "STATE DEBT TABLES" do not include equipment leases or leases which were not sold, directly or indirectly, to the public capital markets.

6. *Non-Recourse Debt*

Certain state agencies and authorities issue revenue obligations for which the General Fund has no liability. These revenue bonds represent obligations payable from state revenue-producing enterprises and projects, and conduit obligations payable from revenues paid by private users or local governments of facilities financed by the revenue bonds. In each case, such revenue bonds are not payable from the General Fund. The enterprises and projects include transportation projects, various public works projects, public and private educational facilities (including the California State University and University of California systems), housing, health facilities and pollution control facilities. See the table "State Agency Revenue Bonds and Conduit Financing" under "STATE DEBT TABLES" for a summary of outstanding revenue bonds and notes which are non-recourse to the General Fund as of July 1, 2015.

7. Build America Bonds

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

Between April 2009 and December 2010, the state issued $13.5 billion of BAB general obligation ("GO") bonds and the SPWB issued $551 million of BAB lease-revenue bonds (of which $150 million has been redeemed). The remaining aggregate amount of the subsidy payments expected to be received from fiscal year 2015-16 through the maturity of the outstanding BABs (mostly 20 to 30 years from issuance) based on the 35 percent subsidy rate is approximately $7.5 billion for the general obligation BABs and $195.5 million for the SPWB lease-revenue BABs.

Pursuant to certain federal budget legislation adopted in August 2011, starting as of March 1, 2013, the government's BAB subsidy payments have been reduced as part of a government-wide "sequestration" of many program expenditures. The amount of the reduction of the BAB subsidy payment has been less than $30 million annually and is presently scheduled to continue until 2024, although Congress can terminate or modify it sooner, or extend it. None of the BAB subsidy payments are pledged to pay debt service for the GO and SPWB BABs, so this reduction will not affect the state's ability to pay its debt service on time, nor have any material impact on the state's General Fund.

Future Issuance Plans; General Fund Debt Ratio

Based on estimates from the Department of Finance as well as updates from the State Treasurer's Office, approximately $3.3 billion of new money general obligation bonds (some of which may initially be in the form of commercial paper notes) and approximately $420 million of lease-revenue bonds are expected to be issued in fiscal year 2015-16. These estimates will be updated by the State Treasurer's Office based on information provided by the Department of

Finance with respect to the updated funding needs of, and actual spending by, departments. In addition, the actual amount of bonds sold will depend on other factors such as overall budget constraints, market conditions and other considerations. The state also expects to issue refunding bonds as market conditions warrant.

The ratio of debt service on general obligation and lease-revenue bonds supported by the General Fund, to annual General Fund revenues and transfers (the "General Fund Debt Ratio"), can fluctuate as assumptions for future debt issuance and revenue projections are updated from time to time. Any changes to these assumptions will impact the projected General Fund Debt Ratio. Based on the revenue estimates contained in the 2015 Budget and bond issuance estimates referred to in the preceding paragraph, the General Fund Debt Ratio is estimated to equal approximately 6.68 percent in fiscal year 2015-16 and 6.47 percent in fiscal year 2016-17.

The General Fund Debt Ratio is calculated based on actual gross debt service, without adjusting for receipts from the U.S. Treasury for the state's current outstanding general obligation and lease-revenue BABs or the availability of any special funds that may be used to pay a portion of the debt service to help reduce General Fund costs. The total of these offsets is estimated to equal approximately $1.5 billion for fiscal year 2015-16 and $1.5 billion for fiscal year 2016-17. Including the estimated offsets reduces the General Fund Debt Ratio to 5.38 percent in fiscal year 2015-16 and 5.22 percent in fiscal year 2016-17. The actual General Fund Debt Ratio in future fiscal years will depend on a variety of factors, including actual debt issuance (which may include additional issuance approved in the future by the Legislature and, for general obligation bonds, the voters), actual interest rates, debt service structure, and actual General Fund revenues and transfers.

See the table "OUTSTANDING STATE DEBT, FISCAL YEARS 2010-11 THROUGH 2014-15" under "STATE DEBT TABLES" for certain historical ratios of debt service to General Fund receipts.

Economic Recovery Bonds

The California Economic Recovery Bond Act ("Proposition 57") was approved by the voters on March 2, 2004. Proposition 57 authorized the issuance of up to $15 billion in Economic Recovery Bonds (ERBs) to finance the negative General Fund reserve balance as of June 30, 2004, and other General Fund obligations undertaken prior to June 30, 2004. Repayment of the ERBs was secured by a pledge of revenues from a one-quarter cent increase in the state's sales and use tax (the "special sales tax") that became effective July 1, 2004. The entire authorized amount of ERBs was issued in three sales, in May and June 2004, and in February 2008, and refunding issues were sold in 2009 and 2011. No further ERBs can be issued under Proposition 57. As of August 5, 2015, no ERBs remain outstanding, as all the remaining ERBs have been defeased by creation of several irrevocable escrow funds derived primarily from excess special sales tax revenues. The last ERBs will be paid from these escrow funds on July 1, 2019.

Tobacco Settlement Revenue Bonds

In 1998, the state signed a settlement agreement with the four major cigarette manufacturers, in which the participating manufacturers agreed to make payments to the state in perpetuity. Under a separate Memorandum of Understanding, half of the payments made by the cigarette manufacturers are paid to the state and half to certain local governments, subject to certain adjustments.

In 2002, the state established a special purpose trust to purchase the tobacco assets and to issue revenue bonds secured by the tobacco settlement revenues. Legislation in 2003 authorized a credit enhancement mechanism that requires the Governor to request an appropriation from the General Fund in the annual Budget Act for payment of debt service and other related costs in the event tobacco settlement revenues and certain other amounts are insufficient. The Legislature is not obligated to make any General Fund appropriation so requested.

The credit enhancement mechanism applies to certain tobacco settlement bonds that were issued in 2005, 2013, and 2015 with an outstanding principal amount of approximately $2.35 billion (the "enhanced bonds"). The enhanced bonds are neither general nor legal obligations of the state and neither the faith and credit, nor the taxing power, nor any other assets or revenues of the state shall be pledged to the payment of the enhanced bonds. However, as described above, the state committed to request the Legislature for a General Fund appropriation in the event there are insufficient tobacco settlement revenues to pay debt service with respect to the enhanced bonds, and certain other available amounts, including the reserve fund for the enhanced bonds, are depleted. This appropriation has been requested and approved by the Legislature but use of the appropriated moneys has never been required.

Draws on the reserve fund for the enhanced bonds in the amount of approximately $7.94 million were used to make required debt service payments on the 2005 bonds in 2011 and 2012. In April 2013, the reserve fund was replenished in full from tobacco revenues. As of July 1, 2015, the balance of the reserve fund for the enhanced bonds was $150 million. If, in any future year tobacco settlement revenues are less than required debt service payments on the enhanced bonds in such year, additional draws on the reserve fund will be required and at some point in the future the reserve fund may become fully depleted. The state is not obligated to replenish the reserve fund from the General Fund, or to request an appropriation to replenish the reserve fund.

Office of Statewide Health Planning and Development Guarantees

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

State law established the Health Facility Construction Loan Insurance Fund (the "Fund") as a trust fund which is continuously appropriated and may only be used for purposes of this program. The Fund is used as a depository of fees and insurance premiums and any recoveries and is the initial source of funds used to pay administrative costs of the program and shortfalls resulting from defaults by insured borrowers. If the Fund were unable to make payment on an insured loan or bond, state law provides for the State Treasurer to issue debentures to the holders of the defaulted loan or bond which are payable on parity with state general obligation bonds. The Fund is liable for repayment to the General Fund of any money paid from the General Fund. All claims on insured loans to date have been paid from the Fund and no debentures have been issued.

As of February 28, 2015, OSHPD insured 107 loans to nonprofit or publicly owned health facilities throughout California with a current outstanding aggregate par amount of approximately $1.763 billion. The cash balance of the Fund was approximately $168.4 million as of February 28, 2015. The biennial actuarial study of the Fund as of June 30, 2012, was completed in July 2014 (the "2012 actuarial study"). Based upon a number of assumptions, the 2012 actuarial study concluded, among other things, that the Fund appeared to be sufficient, under the "expected scenario" to maintain a positive balance until at least fiscal year 2041-42. Even under the "most pessimistic scenario," the 2012 actuarial study found that there was a 70 percent likelihood that the Fund's reserves as of June 30, 2012 would protect against any General Fund losses until at least 2020-21, and a 90 percent likelihood that the Fund's reserves as of June 30, 2012 would protect against any General Fund losses until at least fiscal year 2017-18. There can be no assurances that the financial condition of the Fund has not materially declined since the 2012 actuarial study. The biennial actuarial study of the Fund as of June 30, 2014 is anticipated to be completed in late 2015. More information on the program can be obtained from OSHPD's website.

INVESTMENT OF STATE FUNDS

Moneys on deposit in the State Centralized Treasury System are invested by the State Treasurer in the PMIA. As of June 30, 2015, the PMIA held approximately $48.1 billion of state moneys, and $21.5 billion invested for about 2,488 local governmental entities through the Local Agency Investment Fund ("LAIF"). The assets of the PMIA as of June 30, 2015 are shown in the following chart.

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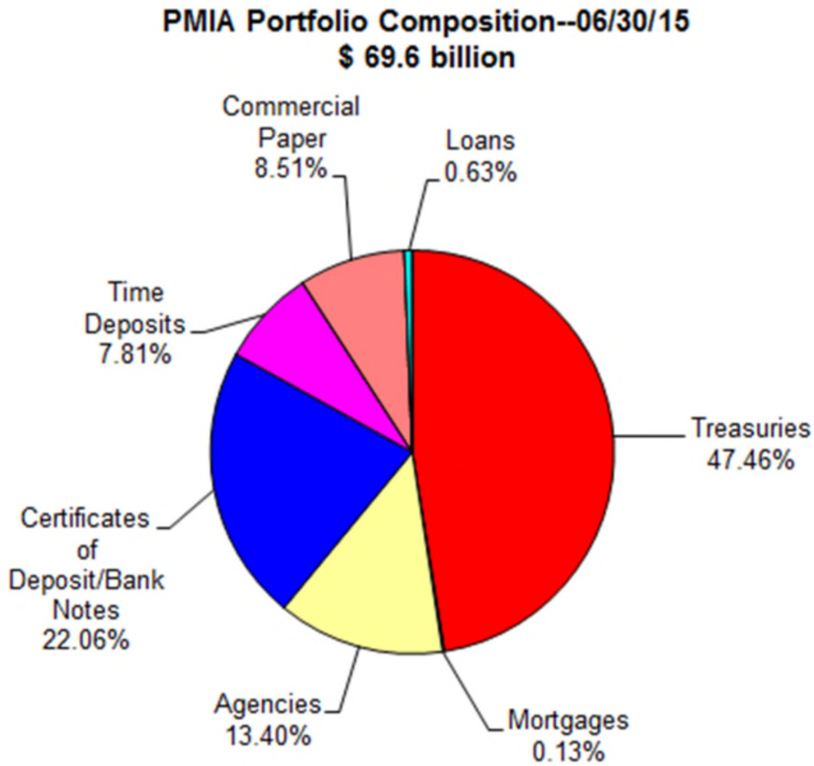

Source: State of California, Office of the State Treasurer.

The State's Treasury operations are managed in compliance with the Government Code and according to a statement of investment policy which sets forth permitted investment vehicles, liquidity parameters and maximum maturity of investments. The PMIA operates with the oversight of the PMIB. The LAIF portion of the PMIA operates with the oversight of the Local Agency Investment Advisory Board (consisting of the State Treasurer and four other appointed members).

The PMIA is not invested, nor has it ever been invested, in structured investment vehicles or collateralized debt obligations. The PMIA portfolio performance, and the PMIA's holdings are displayed quarterly on the State Treasurer's website and may be accessed under PMIB Quarterly Reports. The PMIA is not currently invested in auction rate securities.

The State Treasurer does not invest in leveraged products or inverse floating rate securities. The investment policy permits the use of reverse repurchase agreements subject to limits of no more than 10 percent of the PMIA. All reverse repurchase agreements are cash matched either to the maturity of the reinvestment or an adequately positive cash management date which is approximate to the maturity of the reinvestment.

The average life of the investment portfolio of the PMIA as of June 30, 2015 was 239 days. Over the prior 12 months, the average life has ranged from 191 days to 247 days.

OVERVIEW OF STATE GOVERNMENT

Organization of State Government

The state Constitution provides for three separate branches of government: the legislative, the judicial and the executive. The state Constitution guarantees the electorate the right to make basic decisions, including amending the state Constitution and local government charters. In addition, the state voters may directly influence state government through the initiative, referendum and recall processes. The state Constitution provides for mechanisms through which it may be amended or revised.

California's Legislature consists of a 40-member Senate and an 80-member Assembly. Assembly members are elected for two-year terms, and Senators are elected for four-year terms. Before passage of Proposition 28 on June 5, 2012, Assembly members were limited to three terms in office and Senators to two terms. Proposition 28 reduced the total amount of time a person may serve in the Legislature from 14 to 12 years, but allows a person to serve a total of 12 years in either the Assembly, the Senate, or a combination of both. The new term limits law applies only to members of the Legislature elected after the measure was passed.

The Legislature meets almost year round for a two-year session. The Legislature employs the Legislative Analyst, who provides reports on state finances, among other subjects. The Office of the California State Auditor, an independent office since 1993, annually issues an auditor's report based on an examination of the General Purpose Financial Statements of the State Controller, in accordance with generally accepted accounting principles. See "FINANCIAL STATEMENTS."

The Governor is the chief executive officer of the state. The Governor presents the annual budget and traditionally presents an annual package of bills constituting a legislative program. In addition to the Governor, state law provides for seven other statewide elected officials in the executive branch. The Governor and the other statewide officials may be elected for up to two four-year terms. The current elected statewide officials, their party affiliation and the dates on which they were first elected are as follows:

Office	Name	Party Affiliation	First Elected
Governor	Edmund G. Brown Jr.	Democrat	2010*
Lieutenant Governor	Gavin Newsom	Democrat	2010
Controller	Betty Yee	Democrat	2014
Treasurer	John Chiang	Democrat	2014
Attorney General	Kamala D. Harris	Democrat	2010
Secretary of State	Alex Padilla	Democrat	2014
Superintendent of Public Instruction	Tom Torlakson	Democrat	2010
Insurance Commissioner	Dave Jones	Democrat	2010

* Previously served as Governor 1975-83, prior to term limit law.

In addition to entities such as the Department of Finance, the executive branch is principally administered through ten agencies and their Secretaries (Secretaries are appointed by the Governor).

Some state programs are administered by boards and commissions, such as The Regents of the University of California, Public Utilities Commission, Franchise Tax Board and California Transportation Commission, which have authority over certain functions of state government with the power to establish policy and promulgate regulations. The appointment of members of boards and commissions is usually shared by the Legislature and the Governor, and often includes ex officio members.

Employee Relations

The 2015 Budget Act estimates the state work force for fiscal year 2015-16 at approximately 364,000 positions. Approximately 140,000 of those positions represent state employees of the legislative and judicial branches of government and institutions of higher education. Of the remaining 224,000 positions, over 80 percent are subject to collective bargaining on wages, hours and other terms and conditions of employment with the Administration, which are contained in a Memorandum of Understanding ("MOU") subject to ratification by the Legislature; less than 20 percent are excluded from collective bargaining. State law provides that state employees, defined as any civil service employee of the state and teachers under the jurisdiction of the Department of Education or the Superintendent of Public Instruction, and excluding certain other categories, have a right to form, join, and participate in the activities of employee organizations for the purpose of representation on all matters of employer-employee relations. Once a bargaining unit ("BU") selects an employee organization, only that organization can represent those employees.

There are 21 collective BUs that are represented by employee organizations. The Service Employees International Union is the exclusive representative for 9 of the 21 BUs, or approximately 50 percent of those represented employees subject to collective bargaining. The Administration has begun collective bargaining negotiations with five of the state's BUs that represent, respectively correctional peace officers, firefighters, engineers, scientists, and craft and maintenance workers. With the exception of firefighters, each of these units' MOUs with the state expired in early July 2015. For firefighters, the BU has exercised its option to reopen the contract, pursuant to existing provisions within the MOU. While the Administration and the affected BUs negotiate new or revised MOUs, the existing MOUs continue in effect until replaced or extended pursuant to law. A key priority for the Administration during bargaining is addressing the state's $72 billion unfunded retiree health care obligation (AAU) through shared prefunding of program costs along with other cost containment strategies.

ECONOMY AND POPULATION

California's economy, the largest among the 50 states and one of the largest in the world, has major components in high technology, trade, entertainment, manufacturing, tourism, construction, and services. The makeup of the state economy generally mirrors that of the national economy. See "CURRENT STATE BUDGET – Development of Revenue Estimates."

In July 2014, California's population reached 38.5 million residents, marking the highest annual growth rate (0.88 percent) of this decade. Since the national census on April 1, 2010, the state has grown by 1,190,000 persons. California's population is projected to grow by 0.94 percent per year to 38.9 million by July 2015 and 39.2 million by July 2016.

Natural increase (births minus deaths) is expected to account for most of the growth during this time; however, net migration into the state is also projected to gradually increase as economic conditions continue to improve. California's population is expected to cross the 40 million persons mark by January 2019. In July 2019, the population is expected to reach 40.3 million—an annualized growth rate of 0.91 percent.

Currently, nearly 9.1 million Californians are under age 18. California has a younger population than the remainder of the U.S., with a slightly higher percentage under 18, a lower percentage 65 and older, and a younger median age.

Population growth rates vary by age group. The state's projected total five-year growth rate (2014-2019) of 4.6 percent is higher than the anticipated 2.8 percent growth in the preschool-age group. The school-age group (5-17 years old) is expected to increase by 0.5 percent and the college-age group (18-24) to decrease by 4.5 percent. The working-age population (25-64) is expected to grow by 801,000 persons or 3.9 percent. The population of the retirement-age group, those 65 and older, is expected to expand rapidly (20.7 percent). Retirement-age growth is likely to be concentrated in the 65 through 74 age cohort, with a five-year growth rate of 25.0 percent.

The following table shows California's population data.

TABLE 23
Population

Year	California Population[(a)]	Increase Over Preceding Year	United States Population[(a)]	Increase Over Preceding Year	California as % of United States
2005	35,985,582	0.7%	295,753,151	0.9%	12.2%
2006	36,246,822	0.7	298,593,212	1.0	12.1
2007	36,552,529	0.8	301,579,895	1.0	12.1
2008	36,856,222	0.8	304,374,846	0.9	12.1
2009	37,077,204	0.6	307,006,550	0.9	12.1
2010	37,309,382	0.6	309,326,295	0.8	12.1
2011	37,570,112	0.7	311,582,564	0.7	12.1
2012	37,867,483	0.8	313,873,685	0.7	12.1
2013	38,164,011	0.8	316,128,839	0.7	12.1
2014	38,499,378	0.9	318,351,393	0.7	12.1

[(a)] Population as of July 1.

Source: U. S. figures from U.S. Department of Commerce, Bureau of the Census; California figures from State of California, Department of Finance.

The following table presents California's civilian labor force data for the resident population, age 16 and over, and unemployment rates for California and the United States.

TABLE 24
Labor Force

(Thousands)

Year	Labor Force	Employment	Unemployment Rate California	Unemployment Rate United States
2005	17,545	16,592	5.4%	5.1%
2006	17,687	16,821	4.9	4.6
2007	17,921	16,961	5.4	4.6
2008	18,207	16,894	7.2	5.8
2009	18,220	16,155	11.3	9.3
2010	18,336	16,092	12.2	9.6
2011	18,420	16,260	11.7	8.9
2012	18,555	16,630	10.4	8.1
2013	18,672	17,003	8.9	7.4
2014	18,811	17,397	7.5	6.2

Source: State of California, Employment Development Department.

Employment, Income, Construction and Export Growth

The following table shows California's nonfarm payroll employment distribution and growth for 2004 and 2014.

TABLE 25
Nonfarm Payroll Employment by Major Sector
2004 and 2014

(Thousands)

Industry Sector	Employment 2004	Employment 2014	Distribution of Employment 2004	Distribution of Employment 2014
Mining and Logging	22.8	31.3	0.2%	0.2%
Construction	850.4	675.4	5.8	4.3
Manufacturing				
Nondurable Goods	557.4	475.4	3.8	3.0
High Technology	387.1	334.0	2.6	2.1
Other durable Goods	579.0	460.2	3.9	2.9
Trade, Transportation & Utilities	2,753.5	2,871.1	18.7	18.4
Information	482.4	457.9	3.3	2.9
Financial Activities	895.2	784.3	6.1	5.0
Professional & Business Services	2,098.0	2,433.4	14.2	15.6
Educational & Health Services	1,756.9	2,414.4	11.9	15.4
Leisure & Hospitality	1,439.4	1,757.1	9.8	11.2
Other Services	503.9	539.8	3.4	3.5
Government				
Federal Government	251.0	242.3	1.7	1.5
State & Local Government	2,146.7	2,168.7	14.6	13.9
TOTAL	**14,723.6**	**15,645.1**	**100.0%**	**100.0%**

Source: State of California, Employment Development Department. (Note: Figures may not add due to rounding.)

The following tables show California's total and per capita income patterns.

TABLE 26
Total Personal Income in California
(Dollars in Millions)

Year	Total Personal Income	Annual % Change	California % of U.S.
2005	$1,395,992	5.6%	13.2%
2006	1,499,309	7.4	13.2
2007	1,564,289	4.3	13.0
2008	1,596,230	2.0	12.8
2009	1,537,095	-3.7	12.7
2010	1,578,553	2.7	12.7
2011	1,685,635	6.8	12.8
2012	1,805,194	7.1	13.0
2013	1,856,614	2.8	13.1
2014	1,944,369	4.7	13.2

Note: omits income for government employees overseas.

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

TABLE 27
Personal Income Per Capita

Year	California	Annual % Change	United States	Annual % Change	California % of U.S.
2005	$38,964	4.9%	$35,888	4.6%	108.6%
2006	41,623	6.8	38,127	6.2	109.2
2007	43,152	3.7	39,804	4.4	108.4
2008	43,608	1.1	40,873	2.7	106.7
2009	41,587	-4.6	39,379	-3.7	105.6
2010	42,282	1.7	40,144	1.9	105.3
2011	44,749	5.8	42,332	5.5	105.7
2012	47,505	6.2	44,200	4.4	107.5
2013	48,434	2.0	44,765	1.3	108.2
2014	50,109	3.5	46,129	3.0	108.6

Note: omits income for government employees overseas.

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

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The following tables show California's residential and non-residential construction.

TABLE 28
Residential Construction Permits Authorized

	Units			
Year	**Total**	**Single**	**Multiple**	**Valuation[a] (Dollars in Millions)**
2005	208,972	155,322	53,650	$47,138
2006	164,280	108,021	56,259	38,108
2007	113,034	68,409	44,625	28,621
2008	64,962	33,050	31,912	18,072
2009	36,421	25,454	10,967	12,037
2010	44,762	25,526	19,236	13,731
2011	47,336	21,631	25,705	14,415
2012	59,225	27,560	31,665	17,731
2013	85,472	36,991	48,481	23,027
2014	85,846	37,091	48,755	24,178

[a] Valuation includes additions and alterations.

Source: Construction Industry Research Board; California Homebuilding Foundation.

TABLE 29
Non-residential Construction
(Dollars in Thousands)

Year	Commercial	Industrial	Other	Additions and Alterations	Total
2005	$5,853,351	$1,693,373	$3,818,100	$6,900,709	$18,265,533
2006	7,733,068	1,760,888	3,873,055	7,741,610	21,108,621
2007	8,812,083	1,450,875	3,496,471	8,782,424	22,541,853
2008	6,513,610	938,081	2,983,640	8,776,285	19,211,616
2009	1,919,763	359,868	1,984,534	6,602,103	10,866,268
2010	1,990,358	358,338	1,937,166	6,913,901	11,199,763
2011	2,213,034	478,896	2,152,688	8,146,064	12,990,682
2012	3,215,897	1,409,808	2,382,780	7,626,971	14,635,456
2013	5,294,105	1,072,101	6,340,166	8,974,512	21,680,884
2014	7,112,268	1,103,016	5,231,883	10,855,176	23,302,343

Source: Construction Industry Research Board; California Homebuilding Foundation.

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The following table shows changes in California's exports of goods.

TABLE 30
California's Exports of Goods
(Dollars in Millions)

Year	Exports[a]	Annual % Change
2005	$116,689.9	5.9%
2006	127,770.8	9.5
2007	134,318.9	5.1
2008	144,805.7	7.8
2009	120,080.0	-17.1
2010	143,208.2	19.3
2011	159,421.4	11.3
2012	161,746.0	1.5
2013	168,044.8	3.9
2014	174,128.6	3.6

[a] Origin of Movement (OM) series

Source: U.S. Department of Commerce, Bureau of the Census.

BANK ARRANGEMENTS TABLE

The following table includes certain information relating to bank arrangements the state has entered into. See also "STATE INDEBTEDNESS AND OTHER OBLIGATIONS – Capital Facilities Financing – Bank Arrangements."

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BANK ARRANGEMENTS TABLE

(See "STATE INDEBTEDNESS AND OTHER OBLIGATIONS – Capital Facilities Financing – Bank Arrangements.")

As of July 1, 2015

BANK ARRANGEMENTS (See "STATE INDEBTEDNESS AND OTHER OBLIGATIONS – Capital Facilities Financing – Bank Arrangements.")

Program	Series	Outstanding Par Amount	Credit Provider	Expiration	Type of Credit	Reset Mode
GO VRDOs	2003A 1	$50,000,000	JP Morgan Chase	12/16/2016	LOC	Daily
	2003A 2-3	$200,000,000	Bank of Montreal	10/16/2015	LOC	Daily
GO VRDOs	2003B 1-4	$250,000,000	JP Morgan Chase (80.0%) CA Public Employees' Retirement System (20.0%)	11/10/2016	LOC	Weekly
GO VRDOs	2003C 1	$100,000,000	Bank of America, N.A.	12/16/2016	LOC	Weekly
	2003C 3-4	$100,000,000	US Bank National Association	4/12/2017	LOC	Weekly
GO VRDOs	2004A 1, 4 & 5	$200,000,000	Citibank, N.A.	10/15/2015	LOC	Daily
GO VRDOs	2004A 2 &3	$150,000,000	State Street Bank & Trust Company	11/10/2016	LOC	Daily
GO VRDOs	2004A 6, 7, 8 & 10	$200,000,000	Citibank, N.A.	10/15/2015	LOC	Weekly
GO VRDOs	2004 A 9	$50,000,000	State Street Bank & Trust Company	11/10/2016	LOC	Weekly
GO VRDOs	2004B 1-3	$165,000,000	Citibank, N.A.	10/15/2015	LOC	Daily
GO VRDOs	2004B 4	$35,000,000	Citibank, N.A.	10/15/2015	LOC	Weekly
GO VRDOs	2004B 5-6	$100,000,000	US Bank National Association	4/5/2018	LOC	Weekly
GO VRDOs	2005A-1-1	$85,850,000	Royal Bank of Canada	11/4/2016	LOC	Weekly
GO VRDOs	2005A-1-2	$85,750,000	Royal Bank of Canada	11/4/2016	LOC	Weekly
GO VRDOs	2005A-2-1	$143,200,000	Barclays Bank PLC	4/11/2017	LOC	Weekly
GO VRDOs	2005A-2-2	$28,400,000	Royal Bank of Canada	11/4/2016	LOC	Weekly
GO VRDOs	2005A-3	$49,100,000	Bank of America, N.A.	12/16/2016	LOC	Weekly
GO VRDOs	2005B-1	$147,100,000	Bank of America, N.A.	2/17/2017	LOC	Weekly
GO VRDOs	2005B-2	$98,100,000	Bank of Tokyo-Mitsubishi UFJ, Ltd.	11/10/2016	LOC	Weekly
GO VRDOs	2005B-3	$49,100,000	Barclays Bank PLC	4/11/2017	LOC	Weekly
GO VRDOs	2005B-4	$49,100,000	JP Morgan Chase	12/16/2016	LOC	Weekly
GO VRDOs	2005B-5	$88,890,000	Barclays Bank PLC	4/11/2017	LOC	Weekly
GO VRDOs	2005B-7	$49,100,000	JP Morgan Chase	12/16/2016	LOC	Daily
Total GO VRDOs		**$2,473,690,000**				

BANK ARRANGEMENTS (See "STATE INDEBTEDNESS AND OTHER OBLIGATIONS – Capital Facilities Financing – Bank Arrangements.")

GO CP [a]	A1/B1	$500,000,000	Wells Fargo Bank, N.A.	2/17/2017	LOC	Up to 90 days
	A2/B2	$500,000,000	Royal Bank of Canada	12/16/2016	LOC	Up to 90 days
	A3/B3	$200,000,000	JP Morgan Chase(75%) CA Public Employees' Retirement System (25%)	12/16/2016	LOC	Up to 90 days
	A4/B4	$150,000,000	Morgan Stanley Bank, N.A.	12/16/2016	LOC	Up to 90 days
	A5/B5	$125,000,000	US Bank National Association	12/16/2016	LOC	Up to 90 days
	A6/B6	$50,000,000	Bank of America, N.A.	12/16/2016	LOC	Up to 90 days
	A7/B7	$125,000,000	Mizuho Bank, Ltd.	2/19/2016	LOC	Up to 90 days
	A8/B8	$75,000,000	Bank of the West	2/17/2017	LOC	Up to 90 days
	C1/D1	$500,000,000	Bank of America, N.A.	11/25/2017	Bank Note	Up to 90 days
	Total CP	**$2,225,000,000**				
Grand Total		**$4,698,690,000**				

(a) For commercial paper (CP), the total outstanding par represents the maximum principal commitment under related bank agreements.

STATE DEBT TABLES

The tables which follow provide information on outstanding state debt, authorized but unissued general obligation bonds and commercial paper notes, debt service requirements for state general obligation and lease-revenue bonds, and authorized and outstanding state revenue bonds. The table titled "Bank Arrangements" contains certain information relating to letters of credit, liquidity facilities and other bank arrangements in connection with variable rate obligations and commercial paper notes. Also, see "STATE INDEBTEDNESS AND OTHER OBLIGATIONS." For purposes of these tables, "General Fund bonds," also known as "non-self liquidating bonds," are general obligation bonds expected to be paid from the General Fund without reimbursement from any other fund. Although the principal of general obligation commercial paper notes in the "non-self liquidating" category is legally payable from the General Fund, the state expects that principal of such commercial paper notes will be paid only from the issuance of new commercial paper notes or the issuance of long-term general obligation bonds to retire the commercial paper notes. Interest on "non-self liquidating" general obligation commercial paper notes is payable from the General Fund.

"Enterprise Fund bonds," also known as "self liquidating bonds," are general obligation bonds for which program revenues are expected to be sufficient to reimburse in full the General Fund for debt service payments, but any failure to make such a reimbursement does not affect the obligation of the state to pay principal and interest on the bonds from the General Fund.

Certain of the following tables, which are dated as of July 1, 2015, reflect that as of that date the state still had outstanding $929.7 million of Economic Recovery Bonds, a category of self-liquidating bonds also referred to in prior versions of these tables as "Special Revenue Fund Bonds." All of these bonds were defeased on August 5, 2015 and are no longer outstanding. See "STATE INDEBTEDNESS AND OTHER OBLIGATIONS – Economic Recovery Bonds."

Monthly updates of certain of the tables are available on the website of the State Treasurer.

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OUTSTANDING STATE DEBT
FISCAL YEARS 2010-11 THROUGH 2014-15
(Dollars in Thousands Except for Per Capita Information)

	2010-11	2011-12	2012-13	2013-14	2014-15
Outstanding Debt (a)					
General Obligation Bonds					
General Fund (Non-Self Liquidating)...................	$ 71,283,705	$ 73,060,865	$ 74,456,230	$ 75,714,125	$ 76,005,055
Enterprise Fund (Self Liquidating).......................	$ 1,216,115	$ 1,115,935	$ 884,180	$ 671,180	$ 646,750
Special Revenue Fund (Self Liquidating).............	$ 6,787,220	$ 5,910,480	$ 4,731,745	$ 3,417,115	$ 929,735
Total General Obligation Bonds..............................	$ 79,287,040	$ 80,087,280	$ 80,072,155	$ 79,802,420	$ 77,581,540
Revenue Bonds					
Lease-Purchase Debt..	$ 9,426,325	$ 11,330,355	$ 11,822,140	$ 11,266,240	$ 10,989,480
Proposition 1A Receivables Program………..….	$ 1,895,000	$ 1,895,000	$ 0	$ 0	$ 0
Total Revenue Bonds……….............................	$ 11,321,325	$ 13,225,355	$ 11,822,140	$ 11,266,240	$ 10,989,480
Total Outstanding General Obligation and Revenue Bonds...	$ 90,608,365	$ 93,312,635	$ 91,894,295	$ 91,068,660	$ 88,571,020
Bond Sales During Fiscal Year					
Non-Self Liquidating General Obligation Bonds....	$ 4,525,000	$ 7,817,390	$ 7,417,170	$ 5,905,370	$ 6,613,070
Self Liquidating General Obligation Bonds............	$ 0	$ 0	$ 0	$ 0	$ 110,000
Proposition 1A Receivables Revenue Bonds…….	$ 0	$ 0	$ 0	$ 0	$ 0
Self Liquidating Special Fund Revenue Bonds.......	$ 0	$ 438,635	$ 0	$ 0	$ 0
Lease-Purchase Debt...	$ 0	$ 2,627,115	$ 1,678,130	$ 4,849,680	$ 728,085
Debt Service (b)					
Non-Self Liquidating General Obligation Bonds....	$ 5,704,729	$ 5,782,240	$ 5,424,867	$ 6,307,696	$ 6,577,536
Lease-Purchase Debt...	$ 973,824	$ 980,862	$ 1,194,881	$ 978,202	$ 1,103,973
General Fund Receipts (c).......................................	$ 95,536,379	$ 87,769,787	$ 103,424,674	$ 103,966,197	$ 116,385,580
Non-Self Liquidating General Obligation Bonds Debt Service as a Percentage of General Fund Receipts..	5.97%	6.59%	5.25%	6.07%	5.65%
Lease-Purchase Debt Service as a Percentage of General Fund Receipts.................	1.02%	1.12%	1.16%	0.94%	0.95%
Population (d)..	37,309,382	37,570,112	37,867,483	38,164,011	38,449,378
Non-Self Liquidating General Obligation Bonds Outstanding per Capita...	$ 1,910.61	$ 1,944.65	$ 1,966.23	$ 1,983.91	$ 1,976.76
Lease-Purchase Debt Outstanding per Capita..........	$ 252.65	$ 301.58	$ 312.20	$ 295.21	$ 285.82
Personal Income (e)...	$ 1,587,403,750	$ 1,664,635,750	$ 1,720,052,000	$ 1,827,919,750	$ 1,943,915,250
Non-Self Liquidating General Obligation Bonds Outstanding as Percentage of Personal Income.....	4.49%	4.39%	4.33%	4.14%	3.91%
Lease-Purchase Debt Outstanding as Percentage of Personal Income.............................	0.59%	0.68%	0.69%	0.62%	0.57%

(a) Principal outstanding as of July 1 of the next fiscal year. Includes the initial value of capital appreciation bonds rather than the accreted value.
(b) Calculated on a cash basis. The amounts do not reflect any interest subsidy under the Build America Bonds program. Subsidy not pledged to the repayment of debt service. Debt service costs of bonds issued in any fiscal year largely appear in subsequent fiscal years.
(c) Calculated on a cash basis. General Fund Receipts includes both revenues and nonrevenues, such as borrowings, the proceeds of which are deposited in the General Fund (e.g. tobacco securitization bonds and economic recovery bonds).
(d) As of July 1, the beginning of the fiscal year.
(e) Revised estimates as of June 22, 2015.

SOURCES: Population: State of California, Department of Finance.
Personal Income: United States, Department of Commerce, Bureau of Economic Analysis
Outstanding Debt, Bonds Sales During Fiscal Year and Debt Service: State of California, Office of the Treasurer.
General Fund Receipts: State of California, Office of the State Controller.

AUTHORIZED AND OUTSTANDING GENERAL OBLIGATION BONDS
As of 7/01/2015
(Thousands)

	Proposition Number	Voter Authorization Date	Authorization Amount $	Long Term Bonds Outstanding $	Commercial Paper Outstanding (a) $	Unissued $
GENERAL FUND BONDS (Non-Self Liquidating)						
+ 1988 School Facilities Bond Act	79	11/08/88	797,745	41,915	0	0
+ 1990 School Facilities Bond Act	123	06/05/90	797,875	90,640	0	0
+ 1992 School Facilities Bond Act	155	11/03/92	898,211	257,770	0	0
California Clean Water, Clean Air, Safe Neighborhood Parks, and Coastal Protection Act of 2002	40	03/05/02	2,600,000	2,102,570	15,410	243,830
+ California Library Construction and Renovation Bond Act of 1988	85	11/08/88	72,405	12,965	0	0
*+ California Park and Recreational Facilities Act of 1984	18	06/05/84	368,900	12,325	0	0
* California Parklands Act of 1980	1	11/04/80	285,000	2,650	0	0
California Reading and Literacy Improvement and Public Library Construction and Renovation Bond Act of 2000	50	03/07/00	350,000	263,220	0	5,040
*+ California Safe Drinking Water Bond Law of 1976	3	06/08/76	172,500	2,905	0	0
* California Safe Drinking Water Bond Law of 1984	28	11/06/84	75,000	1,855	0	0
* California Safe Drinking Water Bond Law of 1986	55	11/04/86	100,000	22,075	0	0
California Safe Drinking Water Bond Law of 1988	81	11/08/88	75,000	28,230	0	0
*+ California Wildlife, Coastal, and Park Land Conservation Act	70	06/07/88	768,670	114,210	0	0
Children's Hospital Bond Act of 2004	61	11/02/04	750,000	651,625	300	47,145
Children's Hospital Bond Act of 2008	3	11/04/08	980,000	647,810	12,645	304,455
Class Size Reduction Kindergarten-University Public Education Facilities Bond Act of 1998 (Hi-Ed)	1A	11/03/98	2,500,000	1,707,315	0	0
Class Size Reduction Kindergarten-University Public Education Facilities Bond Act of 1998 (K-12)	1A	11/03/98	6,700,000	3,953,915	0	11,400
Clean Air and Transportation Improvement Bond Act of 1990	116	06/05/90	1,990,000	787,835	0	4,985
* Clean Water Bond Law of 1984	25	11/06/84	325,000	10,045	0	0
* Clean Water and Water Conservation Bond Law of 1978	2	06/06/78	375,000	4,405	0	0
Clean Water and Water Reclamation Bond Law of 1988	83	11/08/88	65,000	20,375	0	0
* Community Parklands Act of 1986	43	06/03/86	100,000	2,795	0	0
* County Correctional Facility Capital Expenditure Bond Act of 1986	52	06/03/86	495,000	15,565	0	0
County Correctional Facility Capital Expenditure and Youth Facility Bond Act of 1988	86	11/08/88	500,000	71,255	0	0
++++ Disaster Preparedness and Flood Prevention Bond Act of 2006	1E	11/07/06	3,990,000	2,231,645	0	1,718,652

AUTHORIZED AND OUTSTANDING GENERAL OBLIGATION BONDS
As of 7/01/2015
(Thousands)

	Proposition Number	Voter Authorization Date	Authorization Amount $	Long Term Bonds Outstanding $	Commercial Paper Outstanding (a) $	Unissued $
GENERAL FUND BONDS (Non-Self Liquidating)						
Earthquake Safety and Public Buildings Rehabilitation Bond Act of 1990	122	06/05/90	300,000	72,495	1,240	7,490
* Fish and Wildlife Habitat Enhancement Act of 1984	19	06/05/84	85,000	5,035	0	0
Higher Education Facilities Bond Act of 1988	78	11/08/88	600,000	24,730	0	0
Higher Education Facilities Bond Act of June 1990	121	06/05/90	450,000	48,545	0	540
Higher Education Facilities Bond Act of June 1992	153	06/02/92	900,000	311,215	0	0
Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006	1B	11/07/06	19,925,000	15,413,335	93,490	3,674,490
Housing and Emergency Shelter Trust Fund Act of 2002	46	11/05/02	2,100,000	834,100	14,120	79,495
Housing and Emergency Shelter Trust Fund Act of 2006	1C	11/07/06	2,850,000	1,250,520	0	1,094,135
Housing and Homeless Bond Act of 1990	107	06/05/90	150,000	1,470	0	0
Kindergarten-University Public Education Facilities Bond Act of 2002 (Hi-Ed)	47	11/05/02	1,650,000	1,393,410	0	0
Kindergarten-University Public Education Facilities Bond Act of 2002 (K-12)	47	11/05/02	11,400,000	9,140,790	0	57,810
Kindergarten-University Public Education Facilities Bond Act of 2004 (Hi-Ed)	55	03/02/04	2,300,000	2,015,725	4,045	58,824
Kindergarten-University Public Education Facilities Bond Act of 2004 (K-12)	55	03/02/04	10,000,000	8,701,530	30,410	121,190
Kindergarten-University Public Education Facilities Bond Act of 2006 (Hi-Ed)	1D	11/07/06	3,087,000	2,997,480	4,335	38,775
Kindergarten-University Public Education Facilities Bond Act of 2006 (K-12)	1D	11/07/06	7,329,000	6,593,220	5	575,360
* Lake Tahoe Acquisitions Bond Act	4	08/02/82	85,000	150	0	0
* New Prison Construction Bond Act of 1986	54	11/04/86	500,000	2,490	0	0
New Prison Construction Bond Act of 1988	80	11/08/88	817,000	12,785	0	2,165
New Prison Construction Bond Act of 1990	120	06/05/90	450,000	16,955	0	605
Passenger Rail and Clean Air Bond Act of 1990	108	06/05/90	1,000,000	42,025	0	0
Public Education Facilities Bond Act of 1996 (Higher Education)	203	03/26/96	975,000	517,560	3,780	4,650
++ Public Education Facilities Bond Act of 1996 (K-12)	203	03/26/96	2,012,035	879,420	0	0
++++ Safe Drinking Water, Clean Water, Watershed Protection, and Flood Protection Act	13	03/07/00	1,884,000	1,398,450	0	43,346
++++ Safe Drinking Water, Water Quality and Supply, Flood Control, River and Coastal Protection Bond Act of 2006	84	11/07/06	5,283,000	2,396,365	253,370	2,552,255
Safe Neighborhood Parks, Clean Water, Clean Air, and Coastal Protection Bond Act of 2000	12	03/07/00	2,100,000	1,468,840	0	73,820
++++ Safe, Clean, Reliable Water Supply Act	204	11/05/96	969,500	545,745	0	62,915
Safe, Reliable High-Speed Passenger Train Bond Act for the 21st Century	1A	11/04/08	9,950,000	808,970	0	8,923,225
* School Building and Earthquake Bond Act of 1974	1	11/05/74	40,000	14,635	0	0

AUTHORIZED AND OUTSTANDING GENERAL OBLIGATION BONDS
As of 7/01/2015
(Thousands)

	Proposition Number	Voter Authorization Date	Authorization Amount $	Long Term Bonds Outstanding $	Commercial Paper Outstanding (a) $	Unissued $
GENERAL FUND BONDS (Non-Self Liquidating)						
School Facilities Bond Act of 1990	146	11/06/90	800,000	142,100	0	0
School Facilities Bond Act of 1992	152	06/02/92	1,900,000	528,175	0	10,280
Seismic Retrofit Bond Act of 1996	192	03/26/96	2,000,000	1,155,030	0	0
* State, Urban, and Coastal Park Bond Act of 1976	2	11/02/76	280,000	3,930	0	0
Stem Cell Research and Cures Bond Act of 2004	71	11/02/04	3,000,000	1,396,355	45,210	1,272,650
Veterans Homes Bond Act of 2000	16	03/07/00	50,000	35,205	0	975
Veterans Housing and Homeless Prevention Bond Act of 2014	41	06/03/14	600,000	125	850	599,000
Voting Modernization Bond Act of 2002	41	03/05/02	200,000	28,840	0	64,495
Water Conservation Bond Law of 1988	82	11/08/88	60,000	22,870	0	5,235
++++* Water Conservation and Water Quality Bond Law of 1986	44	06/03/86	136,500	31,645	0	230
Water Quality, Supply, and Infrastructure Improvement Act of 2014	1	11/04/14	7,545,000	0	865	7,544,135
++++ Water Security, Clean Drinking Water, Coastal and Beach Protection Act of 2002	50	11/05/02	3,345,000	2,694,875	1,810	309,574
Total General Fund Bonds			**135,239,341**	**76,005,055**	**481,885**	**29,513,171**
ENTERPRISE FUND BONDS (Self Liquidating)						
* California Water Resources Development Bond Act	1	11/08/60	1,750,000	180,560	0	167,600
Veterans Bond Act of 1986	42	06/03/86	850,000	29,060	0	0
Veterans Bond Act of 1988	76	06/07/88	510,000	29,695	0	0
Veterans Bond Act of 1990	142	11/06/90	400,000	45,910	0	0
Veterans Bond Act of 1996	206	11/05/96	400,000	120,175	0	0
Veterans Bond Act of 2000	16	11/07/00	500,000	241,350	0	128,610
+++ Veterans Bond Act of 2008	12	11/04/08	300,000	0	0	300,000
Total Enterprise Fund Bonds			**4,710,000**	**646,750**	**0**	**596,210**

AUTHORIZED AND OUTSTANDING GENERAL OBLIGATION BONDS
As of 7/01/2015
(Thousands)

	Proposition Number	Voter Authorization Date	Authorization Amount $	Long Term Bonds Outstanding $	Commercial Paper Outstanding (a) $	Unissued $
SPECIAL REVENUE FUND BONDS (Self Liquidating)						
b) Economic Recovery Bond Act	57	04/10/04	15,000,000	929,735	0	0
Total Special Revenue Fund Bonds			**15,000,000**	**929,735**	**0**	**0**
TOTAL GENERAL OBLIGATION BONDS			**154,949,341**	**77,581,540**	**481,885**	**30,109,381**

(a) A total of not more than $2.225 billion of commercial paper principal plus accrued interest may be owing at one time. Bond acts marked with an asterisk (*) are not legally permitted to utilize commercial paper.

(b) The $929,735,000 Economic Recovery Bonds were defeased on August 5, 2015.

\+ SB 1018 (06/27/2012) reduced the voter authorized amount

++ SB 71 (06/27/2013) reduced the voter authorized amount

+++ AB 639 (10/10/2013) reduced the voter authorized amount

++++ AB 1471 (11/04/2014) reallocated the voter authorized amount

SOURCE: State of California, Office of the Treasurer.

GENERAL OBLIGATION AND REVENUE BONDS
SUMMARY OF DEBT SERVICE REQUIREMENTS
As of July 1, 2015

	Total Debt		
	Interest	**Principal**	**Total (a)**
GENERAL OBLIGATION BONDS			
GENERAL FUND NON-SELF LIQUIDATING (b)			
Fixed Rate	$ 59,436,539,267.60	$ 72,383,265,000.00	$ 131,819,804,267.60
Variable Rate (c)	365,701,867.90	3,621,790,000.00	3,987,491,867.90
ENTERPRISE FUND SELF LIQUIDATING			
Fixed Rate	299,507,609.23	646,750,000.00	946,257,609.23
SPECIAL REVENUE FUND SELF LIQUIDATING (d)			
Fixed Rate	216,174,625.00	929,735,000.00	1,145,909,625.00
REVENUE BONDS			
GENERAL FUND LEASE-REVENUE			
Lease-Revenue	6,258,301,390.76	10,989,480,000.00	17,247,781,390.76
General Fund and Lease-Revenue Total (e)	**$ 66,576,224,760.49**	**$ 88,571,020,000.00**	**$ 155,147,244,760.49**

(a) Includes scheduled mandatory sinking fund payments.
(b) Does not include outstanding commercial paper.
(c) The estimate of future interest payments is based on rates in effect as of July 1, 2015. The interest rates for the daily, weekly and monthly rate bonds range from 0.01 - 1.22%.
The Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006, Series 2013A & 2013B currently bear interest at a fixed rate of 4.00%, and Series 2014A bears interest at a fixed rate of 3.00%, until reset dates, and are assumed to bear that rate from reset until maturity.
(d) Special Revenue Fund Self Liquidating - The $929,735,000 Economic Recovery Bonds were defeased on August 5, 2015.
(e) Estimated interest included.

SOURCE: State of California, Office of the Treasurer.

SCHEDULE OF DEBT SERVICE REQUIREMENTS
FOR GENERAL FUND NON-SELF LIQUIDATING BONDS
Fixed Rate
As of July 1, 2015

Fiscal Year Ending June 30	Current Debt		
	Interest (a)	**Principal**	**Total (b)**
2015	$ -	$ -	$ -
2016	3,876,945,324.83	2,772,400,000.00	6,649,345,324.83
2017	3,771,037,710.62	2,535,605,000.00	6,306,642,710.62
2018	3,662,345,854.95	2,478,875,000.00	6,141,220,854.95
2019	3,544,871,563.12	2,662,370,000.00	6,207,241,563.12
2020	3,396,897,210.14	2,830,425,000.00	6,227,322,210.14
2021	3,269,425,355.23	2,392,785,000.00	5,662,210,355.23
2022	3,142,306,610.31	2,659,655,000.00	5,801,961,610.31
2023	3,014,815,365.53	2,251,945,000.00	5,266,760,365.53
2024	2,906,502,045.43	2,064,550,000.00	4,971,052,045.43
2025	2,799,716,345.65	2,310,610,000.00	5,110,326,345.65
2026	2,682,264,021.60	2,469,155,000.00	5,151,419,021.60
2027	2,555,315,724.56	2,356,855,000.00	4,912,170,724.56
2028	2,439,866,487.11	2,341,835,000.00	4,781,701,487.11
2029	2,325,400,868.85	2,499,025,000.00	4,824,425,868.85
2030	2,201,581,017.60	2,673,635,000.00	4,875,216,017.60
2031	2,056,509,704.05	2,763,880,000.00	4,820,389,704.05
2032	1,925,215,721.90	2,574,165,000.00	4,499,380,721.90
2033	1,787,976,195.01	2,582,090,000.00	4,370,066,195.01
2034	1,657,619,491.00	3,397,575,000.00	5,055,194,491.00
2035	1,425,425,744.09	3,160,410,000.00	4,585,835,744.09
2036	1,236,844,900.76	2,770,655,000.00	4,007,499,900.76
2037	1,064,269,524.37	3,122,660,000.00	4,186,929,524.37
2038	875,842,559.44	3,268,625,000.00	4,144,467,559.44
2039	723,493,428.95	3,415,270,000.00	4,138,763,428.95
2040	442,769,662.50	1,767,885,000.00	2,210,654,662.50
2041	280,957,793.75	2,190,000,000.00	2,470,957,793.75
2042	178,677,793.75	1,319,000,000.00	1,497,677,793.75
2043	123,220,418.75	1,326,325,000.00	1,449,545,418.75
2044	49,651,398.75	875,000,000.00	924,651,398.75
2045	18,773,425.00	550,000,000.00	568,773,425.00
Total	**$ 59,436,539,267.60**	**$ 72,383,265,000.00**	**$ 131,819,804,267.60**

(a) The amounts do not reflect any interest subsidy under the Build America Bonds program. Subsidy not pledged to the repayment of debt service.
(b) Includes scheduled mandatory sinking fund payments.
Does not include outstanding commercial paper.
Total represents the remaining debt service requirements from August 1, 2015 through June 30, 2016.

SOURCE: State of California, Office of the Treasurer.

SCHEDULE OF DEBT SERVICE REQUIREMENTS
FOR GENERAL FUND NON-SELF LIQUIDATING BONDS
Variable Rate
As of July 1, 2015

Fiscal Year Ending June 30	Current Debt		
	Interest (a)	**Principal**	**Total (b)**
2015	$ -	$ -	$ -
2016	28,266,292.26	21,000,000.00	49,266,292.26
2017	28,603,783.30	184,675,000.00	213,278,783.30
2018	28,324,033.47	243,305,000.00	271,629,033.47
2019	27,931,415.74	113,420,000.00	141,351,415.74
2020	27,698,358.14	105,500,000.00	133,198,358.14
2021	27,481,270.38	154,400,000.00	181,881,270.38
2022	26,995,613.66	39,200,000.00	66,195,613.66
2023	26,984,099.27	61,100,000.00	88,084,099.27
2024	26,986,175.85	173,600,000.00	200,586,175.85
2025	26,910,708.25	116,400,000.00	143,310,708.25
2026	26,884,155.70	203,300,000.00	230,184,155.70
2027	22,337,839.08	390,600,000.00	412,937,839.08
2028	13,250,083.90	399,000,000.00	412,250,083.90
2029	7,976,578.58	407,700,000.00	415,676,578.58
2030	6,731,810.94	254,390,000.00	261,121,810.94
2031	6,169,983.45	163,600,000.00	169,769,983.45
2032	4,619,612.56	316,600,000.00	321,219,612.56
2033	1,547,331.56	271,400,000.00	272,947,331.56
2034	769.23	1,600,000.00	1,600,769.23
2035	330.00	-	330.00
2036	331.43	-	331.43
2037	328.57	-	328.57
2038	330.00	-	330.00
2039	330.00	-	330.00
2040	302.58	1,000,000.00	1,000,302.58
Total	**$ 365,701,867.90**	**$ 3,621,790,000.00**	**$ 3,987,491,867.90**

(a) The estimate of future interest payments is based on rates in effect as of July 1, 2015. The interest rates for the daily, weekly and monthly rate bonds range from 0.01 - 1.22%.
The Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006, Series 2013A & 2013B currently bear interest at a fixed rate of 4.00%, and Series 2014A bears interest at a fixed rate of 3.00%, until reset dates, and are assumed to bear that rate from reset until maturity.
(b) Includes scheduled mandatory sinking fund payments. Does not include outstanding commercial paper.
Total represents the remaining estimated debt service requirements from August 1, 2015 through June 30, 2016.

SOURCE: State of California, Office of the Treasurer.

SCHEDULE OF DEBT SERVICE REQUIREMENTS
FOR ENTERPRISE FUND SELF LIQUIDATING BONDS
Fixed Rate
As of July 1, 2015

Fiscal Year Ending June 30	Current Debt		
	Interest	Principal	Total(a)
2015	$ -	$ -	$ -
2016	25,170,265.90	66,415,000.00	91,585,265.90
2017	22,689,276.25	69,685,000.00	92,374,276.25
2018	20,413,625.90	56,490,000.00	76,903,625.90
2019	18,798,050.00	43,015,000.00	61,813,050.00
2020	17,622,800.10	26,935,000.00	44,557,800.10
2021	16,391,158.75	29,375,000.00	45,766,158.75
2022	15,405,011.28	13,630,000.00	29,035,011.28
2023	14,837,563.75	9,695,000.00	24,532,563.75
2024	14,526,228.75	4,365,000.00	18,891,228.75
2025	14,324,594.80	4,660,000.00	18,984,594.80
2026	14,220,521.25	-	14,220,521.25
2027	13,844,946.15	16,695,000.00	30,539,946.15
2028	13,269,205.30	8,835,000.00	22,104,205.30
2029	12,653,205.30	18,315,000.00	30,968,205.30
2030	11,706,236.19	23,565,000.00	35,271,236.19
2031	10,609,799.78	24,895,000.00	35,504,799.78
2032	9,272,432.10	36,605,000.00	45,877,432.10
2033	7,658,458.75	39,735,000.00	47,393,458.75
2034	6,323,555.18	24,135,000.00	30,458,555.18
2035	5,440,006.25	18,165,000.00	23,605,006.25
2036	4,569,518.75	22,810,000.00	27,379,518.75
2037	3,548,333.75	23,025,000.00	26,573,333.75
2038	2,662,880.00	15,300,000.00	17,962,880.00
2039	1,950,055.00	16,025,000.00	17,975,055.00
2040	1,195,310.00	16,790,000.00	17,985,310.00
2041	404,570.00	17,590,000.00	17,994,570.00
Total	**$ 299,507,609.23**	**$ 646,750,000.00**	**$ 946,257,609.23**

(a) Includes scheduled mandatory sinking fund payments.
Total represents the remaining debt service requirements from August 1, 2015 through June 30, 2016.

SOURCE: State of California, Office of the Treasurer.

STATE PUBLIC WORKS BOARD AND
OTHER LEASE-REVENUE FINANCING
OUTSTANDING ISSUES
As of July 1, 2015

Name of Issue		Outstanding
GENERAL FUND SUPPORTED ISSUES:		
State Public Works Board		
California Community Colleges	$	261,625,000
California Department of Corrections and Rehabilitation		4,178,000,000
Trustees of the California State University		1,045,520,000
Various State Facilities (a)		5,172,280,000
Total State Public Works Board Issues	**$**	**10,657,425,000**
Total Other State Facilities Lease-Revenue Issues (b)	$	332,055,000
Total General Fund Supported Issues	**$**	**10,989,480,000**
SPECIAL FUND SUPPORTED ISSUES:		
East Bay State Building Authority	$	11,915,000
San Bernardino Joint Powers Financing Authority		24,550,000
Total Special Fund Supported Issues	**$**	**36,465,000**
TOTAL	**$**	**11,025,945,000**

(a) Includes projects that are supported by multiple funding sources in addition to the General Fund.
(b) Includes $79,815,000 Sacramento City Financing Authority Lease-Revenue Refunding Bonds State of California - Cal/EPA Building, 2013 Series A, which are supported by lease rentals from the California Environmental Protection Agency; these rental payments are subject to annual appropriation by the State Legislature.

SOURCE: State of California, Office of the Treasurer.

SCHEDULE OF DEBT SERVICE REQUIREMENTS
FOR LEASE-REVENUE DEBT
Fixed Rate
As of July 1, 2015

Fiscal Year Ending June 30	Current Debt		
	Interest (a)	Principal	Total (b)
2015	$ -	$ -	$ -
2016	555,130,114.47	517,730,000.00	1,072,860,114.47
2017	534,715,528.96	547,585,000.00	1,082,300,528.96
2018	507,251,503.09	607,565,000.00	1,114,816,503.09
2019	477,952,761.34	586,100,000.00	1,064,052,761.34
2020	449,002,292.60	570,870,000.00	1,019,872,292.60
2021	421,674,576.67	534,040,000.00	955,714,576.67
2022	395,004,393.73	521,800,000.00	916,804,393.73
2023	370,442,125.69	477,685,000.00	848,127,125.69
2024	346,602,894.25	463,295,000.00	809,897,894.25
2025	322,860,078.42	482,540,000.00	805,400,078.42
2026	298,042,273.40	495,670,000.00	793,712,273.40
2027	271,862,527.45	521,820,000.00	793,682,527.45
2028	244,692,905.63	535,370,000.00	780,062,905.63
2029	217,277,855.97	497,575,000.00	714,852,855.97
2030	190,477,020.37	491,255,000.00	681,732,020.37
2031	163,751,912.79	484,130,000.00	647,881,912.79
2032	136,315,519.08	490,745,000.00	627,060,519.08
2033	110,209,586.07	414,705,000.00	524,914,586.07
2034	85,775,299.41	426,345,000.00	512,120,299.41
2035	60,934,133.87	393,190,000.00	454,124,133.87
2036	42,258,875.00	248,365,000.00	290,623,875.00
2037	29,820,925.00	260,800,000.00	290,620,925.00
2038	16,656,150.00	202,380,000.00	219,036,150.00
2039	7,511,337.50	136,055,000.00	143,566,337.50
2040	2,078,800.00	81,865,000.00	83,943,800.00
Total	**$ 6,258,301,390.76**	**$ 10,989,480,000.00**	**$ 17,247,781,390.76**

(a) The amounts do not reflect any interest subsidy under the Build America Bonds program. Subsidy not pledged to the repayment of debt service.
(b) Includes scheduled mandatory sinking fund payments.
Total represents the remaining debt service requirements from August 1, 2015 through June 30, 2016.

SOURCE: State of California, Office of the Treasurer.

STATE AGENCY REVENUE BONDS
AND CONDUIT FINANCING
As of June 30, 2015

Issuing Agency	Outstanding[(a)(b)(c)]
State Revenue Bond Financing Programs:	
California Alternative Energy and Advanced Transportation Financing Authority	3,835,200
California Department of Transportation - GARVEE	49,315,000
California Earthquake Authority	350,000,000
California Health Facilities Financing Authority	62,210,000
California Housing Finance Agency	2,967,688,196
California Infrastructure and Economic Development Bank	569,045,000
California State University	3,687,508,000
Department of Water Resources - Central Valley Project	2,445,325,000
Department of Water Resources - Power Supply Program	5,278,455,000
The Regents of the University of California	15,988,990,000
Veterans Revenue Debenture	359,745,000
TOTAL	**31,762,116,396**
Conduit Financing:	
California Alternative Energy and Advanced Transportation Financing Authority	56,396,701
California Educational Facilities Authority	4,508,872,121
California Health Facilities Financing Authority	13,264,965,000
California Housing Finance Agency	372,411,894
California Infrastructure and Economic Development Bank	3,793,293,994
California Pollution Control Financing Authority	3,755,990,517
California School Financing Authority	373,918,055
TOTAL	**26,125,848,283**

(a) Totals for California Department of Transportation, California State University, Department of Water Resources and Veterans Revenue Debenture were provided by the State of California, Office of the Treasurer. All other totals were provided by the listed issuing agency.

(b) Does not include the Tobacco Settlement Revenue Bonds issued by Golden State Tobacco Securitization Corporation.

(c) Certain state agencies and authorities issue revenue obligations for which the General Fund has no liability. See "STATE INDEBTEDNESS AND OTHER OBLIGATIONS – Capital Facilities Financing -Non-Recourse Debt." The tables above are intended to provide general information concerning the scope of the various State Revenue Bond Financing and Conduit Financing Programs referenced therein, and are not intended to be an exhaustive listing of all of the outstanding obligations of the respective programs.

EXHIBIT 1

PENSION SYSTEMS

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EXHIBIT 1

PENSION SYSTEMS

General

The principal retirement systems in which the state participates or to which it contributes funds are the California Public Employees' Retirement System ("CalPERS") and the California State Teachers' Retirement System ("CalSTRS"). The assets and liabilities of the funds administered by CalPERS and CalSTRS are included in the financial statements of the state as fiduciary funds. A summary description of CalPERS and CalSTRS is set forth in Note 24 (and the Schedule of Funding Progress included in the Required Supplementary Information) to the Audited Basic Financial Statements of the State of California for the Year Ended June 30, 2014. See "FINANCIAL STATEMENTS."

The University of California ("UC") maintains a separate retirement system. The 2015 Budget Act does not allocate any of UC's appropriation specifically to fund its employer retirement costs, but directs $96 million in one-time Proposition 2 funds to pay down the unfunded liability associated with UC's retirement system. See Table 6.

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

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

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

On June 25, 2012, the Governmental Accounting Standards Board ("GASB") approved two new standards with respect to pension accounting and financial reporting standards for state and local governments and pension plans. The new standards are set forth in GASB Statements 67 and 68 which replace GASB Statement 27 and most of GASB Statements 25 and 50. The changes impacted the accounting treatment of pension plans in which state and local governments participate.

While these new accounting standards change financial statement reporting requirements, they did not impact funding policies of the pension systems. The impact of new GASB reporting requirements are reflected in the CalPERS and CalSTRS Comprehensive Annual Financial Reports for year ended June 30, 2014.

Pension Reform

PEPRA

In 2012, the state enacted The Public Employees' Pension Reform Act ("PEPRA"), a comprehensive pension reform package affecting state and local government, which increased the retirement age and lowered retirement benefits for most new state and local government employees hired on or after January 1, 2013. PEPRA also includes provisions to increase current employee contributions. Though PEPRA covers most public employees in state government, cities, counties, special districts, school districts, and community colleges, the following discussion relates only to PEPRA's impact on state employee retirement. PEPRA excludes judges, the University of California, and charter cities with independent pension systems from the new retirement plans; however, newly elected or appointed judges are subject to the new cost-sharing provisions described below.

In a preliminary actuarial analysis, CalPERS noted savings to the state of $10.3 billion to $12.6 billion over the next 30 years due primarily to increased employee contributions and, as the workforce turns over, lower benefit formulas that will gradually reduce normal costs. Other provisions reduce the risk of the state incurring additional unfunded liabilities, including prohibiting retroactive benefits increases, generally prohibiting contribution holidays, and prohibiting purchases of additional non-qualified service credit ("air time"). Key changes to retirement plans affecting the state include (1) lower defined-benefit formulas that increase retirement ages; (2) caps imposed on pensionable income for new public employees hired on or after January 1, 2013; and (3) a new standard that new employees must pay for at least 50 percent of the normal costs of their pensions.

Costs for retiree health and dental benefits ("OPEB") are not addressed in PEPRA; however, later retirement ages will reduce OPEB liabilities in the long term. See "STATE FINANCES—Retiree Health Care Costs." Provisions in PEPRA affecting CalSTRS did not change the state's statutory contribution rate. However, potential additional employee contributions, limits on pensionable compensation, and higher retirement ages for new members will reduce pressure on the system's unfunded liabilities and potentially on state contribution levels in the long term.

CalSTRS Funding Solution

The funding of the CalSTRS Defined Benefit Plan (the "DB Program") is based on contribution rates set by statute instead of actuarially determined amounts as is done for the CalPERS system. Over time, this has contributed to an underfunding of the DB Program which has been a concern in recent years. As one example, the funding status of the DB Program was identified as a high risk issue in the California State Auditor report 2013 601 dated September 2013 because, as stated in the report, the DB Program assets were projected to be depleted in 31 years (33 years based on the June 30, 2013 CalSTRS Valuation) assuming existing contribution rates continue, and other significant actuarial assumptions are realized.

In 2014, the Legislature enacted AB 1469 (Chapter 47, Statutes of 2014), a comprehensive funding solution intended to eliminate the current CalSTRS unfunded liability on the DB Program by 2046. The plan started modestly in fiscal year 2014-15 and will phase in, providing the state, schools, and teachers sufficient time to prepare for future increases in contributions.

Teacher (member) contributions will increase from 8 percent to a total of 10.25 percent of creditable compensation for members not subject to PEPRA and 9.205 percent for members subject to PEPRA, school (employer) contributions will increase from 8.25 percent to a total of 19.1 percent of creditable compensation, and the state's total contribution to the DB Program will increase from approximately 3.5 percent on July 1, 2014 to 6.3 percent of payroll on July 1, 2016 and thereafter. In addition, the state will continue to pay 2.5 percent of payroll annually for a supplemental inflation protection program—for a total of 8.8 percent. See "CalSTRS—Funding for the DB Program" for more information on the plan.

CalPERS

1. General

At June 30, 2014, CalPERS administered a total of 13 funds, including four defined benefit retirement plans: the Public Employees' Retirement Fund ("PERF"), the Legislators' Retirement Fund ("LRF"), the Judges' Retirement Fund ("JRF"), and the Judges' Retirement Fund II ("JRF II"). (These plans, as well as the other plans administered by CalPERS, are described in the comprehensive financial reports of CalPERS, which can be found on CalPERS' website at www.calpers.ca.gov. Such information is not incorporated by reference herein.) The PERF, LRF, JRF, and JRF II are defined benefit pension plans which provide benefits based on members' years of service, age, final compensation, and benefit formula. In addition, benefits are provided for disability, death, and survivors of eligible members or beneficiaries. Certain summary information concerning PERF is set forth below. Certain summary information concerning LRF, JRF, JRF II, and the 1959 Survivor Benefit program (which provides payments to the survivors of eligible members who die before retirement) is set forth at the end of this section.

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

2. *Members and Employers*

CalPERS is a multiple-employer defined benefit retirement system. In addition to the state, employer participants at June 30, 2014 included more than 3,000 public agencies and school districts. CalPERS acts as the common investment and administrative agent for the member agencies. The state and schools (for "classified employees," which generally consist of school employees other than teachers) are required by law to participate in CalPERS. Other public agencies can elect whether or not to participate in CalPERS or administer their own plans. Members of CalPERS generally become fully vested in their retirement benefits earned to date after five years of credited service. Separate accounts are maintained for each employer participating in CalPERS, and separate actuarial valuations are performed for each individual employer's plan to determine the employer's periodic contribution rate and other information for the individual plan, based on the benefit formula selected by the employer and the individual plan's proportionate share of CalPERS assets.

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

The following table reflects the number of state employee members of CalPERS as of June 30, 2013 and June 30, 2014. (CalPERS's fiscal year commences July 1 and ends June 30 of the following year.)

TABLE 31
CalPERS Membership (State Employees) as of June 30

Category	2013	2014
Retirees	175,851	180,666
Survivors and Beneficiaries	28,785	30,575
Active Members	243,620	246,834
Inactive Members	90,463	94,813
Total	538,719	552,888

Source: CalPERS Comprehensive Annual Financial Report for Fiscal Years ended June 30, 2013 and June 30, 2014.

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

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

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

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

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

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

3. *Retirement Benefits*

Generally, annual pension benefits depend on employment category, years of service credit, final compensation, and age of retirement. Annual pension benefits generally range from 2 percent of final compensation at age 55 for each year of service credit (applicable to Miscellaneous and State Industrial category members) to 3 percent of final compensation for each year of service for retirement at age 50 (for State Peace Officer/Firefighter category members). Pension benefits are subject to annual cost of living adjustments (generally ranging from 2-3 percent) and an additional adjustment intended to preserve the "purchasing power" of the pension benefit. Additional pension benefits also generally include disability and death benefit provisions. A detailed description of the pension benefits payable by PERF to state employees is set forth in CalPERS actuarial valuations.

The following table shows the amount of pension benefits paid from CalPERS for fiscal years 2007-08 through 2012-13.

TABLE 32
CalPERS (State Only)
Schedule of Pension Benefits Paid

(Dollars in Millions)

Fiscal Year	Amount of Benefits Paid
2008-09	$5,037
2009-10	5,485
2010-11	6,017
2011-12	6,711
2012-13	6,935

Source: CalPERS State and Schools Actuarial Valuation for fiscal years ended June 30, 2007 through June 30, 2012; State Actuarial Valuation for Fiscal Year Ended June 30, 2013.

4. Member and State Contributions

The pension benefits for state employees in CalPERS are funded by contributions from members, the state, and earnings from investments. Member and state contributions are a percentage of applicable member compensation and are determined annually on an actuarial basis. Member contribution rates are defined by law and vary by bargaining units within the same employee classification. The required contribution rates of active CalPERS members are based on a percentage of their salary ranging from 3 to 13 percent.

State contributions are made from the General Fund, special funds, and non-governmental cost funds. The state has made the full amount of actuarially required contribution each year.

The 2015 Budget Act includes the following employer contribution rates:

	Contribution Rates
State Miscellaneous Tier 1	25.150%
California State University, Miscellaneous Tier 1	25.150
State Miscellaneous Tier 2	25.278
State Industrial	18.656
State Safety	19.264
State Peace Officers & Firefighters	38.985
California State University, Peace Officers and Firefighters	38.985
California Highway Patrol	46.725

Table 33 shows the state's actual and estimated contributions to CalPERS.

TABLE 33
State Contribution to PERF, including CSU
Fiscal Year Ending June 30

(Dollars in Thousands)

Fiscal Year	State Employees All Funds[b]	State Employees General Fund[b]	CSU Employees All Funds	CSU General Fund	Total Contributions	Total General Fund [b]
2011-12	$3,174,494	$1,745,972	N/A	N/A	$3,174,494	$1,745,972
2012-13	2,948,137	1,506,043	$449,243	$449,000	3,397,380	1,955,043
2013-14	3,219,262	1,644,546	473,798	473,542	3,693,060	2,118,088
2014-15[a]	4,041,591	2,119,742	542,814	542,520	4,584,405	2,662,262
2015-16[a]	4,337,735	2,281,422	584,650	584,357	4,922,385	2,865,779

[a] Estimated contributions.

[b] Pension contributions for CSU employees are included for all years displayed in this table. However, beginning in 2012-13, CSU contributions are identified separately.

Source: State of California, Department of Finance.

5. *Prospective Funding Status; Future State Contributions*

The level of future required contributions from the state depends on a variety of factors, including future investment portfolio performance, actuarial assumptions, and additional potential changes in retirement benefits. There can be no assurances that the required annual contribution to CalPERS will not continue to significantly increase and that such increases will not materially adversely affect the financial condition of the state.

In accordance with state law, the actuarial valuation for the fiscal year ended June 30, 2013 includes a sensitivity analysis of discount rates. The analysis shows that employer contribution rates are highly sensitive to changes in the discount rate and that employer contribution rates would be significantly reduced if a higher discount rate is used, and employer contribution rates would significantly increase if a lower discount rate is used. The actuarial report for the year ended June 30, 2013 contains information concerning the specific impact on employer contribution rates and unfunded liability resulting from these different discount rate assumptions.

The tables below, excerpted from the actuarial report for the year ended June 30, 2013, show the projected state contribution rates for fiscal year 2016-17 through fiscal year 2018-19 for the employee categories under five different investment return scenarios. The projected rates assume that all other actuarial assumptions will be realized and that no further changes to assumptions, contributions, benefits, or funding will occur. These projected rates also reflect new hires entering into lower benefit formulas with a lower normal cost and implementation of the April 17, 2013 CalPERS Board-approved amortization and rate smoothing method change. The five different investment return scenarios are as follows (figures in parentheses are negative numbers):

- The first scenario assumes a negative (3.80) percent return for each of the fiscal years 2014-15, 2015-16 and 2016-17.

- The second scenario assumes a 2.80 percent return for each of the fiscal years 2014-15, 2015-16 and 2016-17.

- The third scenario assumes the return for each of the fiscal years 2014-15, 2015-16 and 2016-17 would be CalPERS' assumed 7.50 percent investment return.

- The fourth scenario assumes a 12.00 percent return for each of the fiscal years 2014-15, 2015-16 and 2016-17.

- The fifth scenario assumes an 18.90 percent return for each of the fiscal years 2014-15, 2015-16 and 2016-17.

In all the scenarios, rates are expressed as a percentage of payroll.

Estimated: 2016-17

Assumed return	(3.80)%	2.80%	7.50%	12.00%	18.90%
Projected Contribution Rates					
State Miscellaneous Tier 1	28.6%	28.0%	27.6%	27.1%	26.5%
State Miscellaneous Tier 2	28.2	27.5	27.1	26.6	26.0
State Industrial	19.8	19.4	19.0	18.7	18.1
State Safety	19.6	19.3	19.0	18.7	18.3
State Peace Officers & Firefighters	41.1	40.3	39.8	39.2	38.4
California Highway Patrol	50.4	49.6	49.0	48.4	47.6

Source: CalPERS State Actuarial Valuation, Fiscal Year Ended June 30, 2013.

Estimated: 2017-18

Assumed return	(3.80)%	2.80%	7.50%	12.00%	18.90%
Projected Contribution Rates					
State Miscellaneous Tier 1	30.9%	29.1%	27.8%	26.5%	24.4%
State Miscellaneous Tier 2	30.6	28.8	27.5	26.2	24.1
State Industrial	21.5	20.1	19.0	18.0	16.3
State Safety	20.6	19.5	18.7	17.9	16.6
State Peace Officers & Firefighters	44.0	41.6	39.9	38.2	35.5
California Highway Patrol	53.4	51.1	49.3	47.6	44.9

Source: CalPERS State Actuarial Valuation, Fiscal Year Ended June 30, 2013.

Estimated: 2018-19

Assumed return	(3.80)%	2.80%	7.50%	12.00%	18.90%
			Projected Contribution Rates		
State Miscellaneous Tier 1	34.1%	30.7%	28.1%	25.4%	21.0%
State Miscellaneous Tier 2	34.0	30.6	27.9	25.3	20.9
State Industrial	23.9	21.2	19.1	16.9	13.4
State Safety	22.1	20.0	18.4	16.7	14.0
State Peace Officers & Firefighters	47.9	43.5	40.1	36.6	30.9
California Highway Patrol	57.6	53.1	49.7	46.2	40.5

Source: CalPERS State Actuarial Valuation, Fiscal Year Ended June 30, 2013.

6. *Investment Policy; Investment Returns*

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

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

The following tables set forth the total return on all assets for PERF for the fiscal years ending June 30, 2004 through June 30, 2014, as well as time-weighted average returns.

TABLE 34
CalPERS Investment Results Based On Market Value

Fiscal Year	Annualized Rate of Return
2003-04	16.6%
2004-05	12.3
2005-06	11.8
2006-07	19.1
2007-08	(5.1)
2008-09	(24.0)
2009-10	13.3
2010-11	21.7
2011-12	0.1
2012-13	13.2
2013-14	18.4

Source: CalPERS Comprehensive Annual Financial Report for Fiscal Years ended June 30, 2004 through June 30, 2014.

On July 13, 2015, a CalPERS press release reported a 2.4 percent net investment return in fiscal year 2014-15.

TABLE 35
PERF Time-Weighted Average Returns as of June 30, 2014

Period	**Time Weighted Average Rate of Return**
3 years	10.4%
5 years	12.5
10 years	7.2

Source: CalPERS Comprehensive Annual Financial Report for Fiscal Year ended June 30, 2014.

7. Actuarial Methods and Assumptions

The total cost CalPERS incurs to provide benefits includes administrative expenses. All of these costs are funded through contributions to the PERF and investment earnings on PERF's assets. CalPERS' actuary estimates the total cost of the benefits to be paid and, using the actuarial funding method determined by CalPERS (as described below), the actuary allocates these costs to the fiscal years. CalPERS' financial objective is to fund in such a manner as to keep contribution rates approximately level as a percentage of payroll from generation to generation, while accumulating sufficient assets over each member's working career in order to cover the total cost of providing benefits.

The primary funding method used to accomplish this objective is the "Entry Age Normal Cost Method." Under this method, projected benefits are determined for all members and the associated liabilities are spread in a manner that produces level annual costs as a level percent of pay in each year from the age of hire (entry age) to the assumed retirement age. The cost allocated to the current fiscal year is called the "normal cost." The Actuarial Accrued Liability ("AAL") for active members is then calculated as the portion of the total cost of the plan allocated to prior years.

The AAL for members currently receiving benefits, for active members beyond the assumed retirement age, and for inactive members entitled to deferred benefits is equal to the present value of the benefits expected to be paid. No normal costs are applicable for these participants. The excess of the total AAL over the value of plan assets is called the unfunded actuarial accrued liability. The required contribution is then determined by adding the normal cost and an amortization of the unfunded liability as a level percentage of assumed future payroll.

With respect to CalPERS, the unfunded liability is broken down into components, or bases, according to their date of origin and the cause that gave rise to that component. A component of the unfunded liability that arose due to a change in plan provisions or in actuarial methods or assumptions is separately tracked and amortized over a declining 20-year period. The actuarial assumptions discussed below are used to determine projected benefits. The effect of differences between those assumptions and the actual experience of the plan is calculated each year when the annual actuarial valuation is performed. These differences are actuarial gains or losses.

The CalPERS Chief Actuary considers various factors in determining the assumptions to be used in preparing the actuarial report. Demographic assumptions are based on a study of the actual history of retirement, rates of termination/separation of employment, years of life expectancy after retirement, disability, and other factors. This experience study is generally done once every four years. The most recent experience study was completed in 2014 in connection with the preparation of actuarial recommendations by the CalPERS Chief Actuary as described below. The following table sets forth certain economic actuarial assumptions for the fiscal years ended June 30, 2010 through June 30, 2013.

TABLE 36
Actuarial Assumptions—PERF

Assumption	2010	2011	2012	2013
Investment Returns	7.75%	7.50%	7.50%	7.50%
Inflation	3.00	2.75	2.75	2.75
Salary Increase (Total Payroll)	3.25	3.00	3.00	3.00

Source: CalPERS State and Schools Actuarial Valuation for fiscal years ended June 30, 2009 through June 30, 2012; State Actuarial Valuation for Fiscal Year Ended June 30, 2013.

On February 20, 2014, the CalPERS Board of Administration adopted new mortality and retirement assumptions as part of a regular review of demographic experience. Key assumption changes included longer post-retirement life expectancy, earlier retirement ages, and higher-than-expected wage growth for State Peace Officers/Firefighters and California Highway Patrol. The impact of the assumption changes will be phased in over three years, with a 20-year amortization, beginning in 2014-15.

The CalPERS Board is discussing various "de-risking" approaches to reduce the volatility of employer contribution rates by gradually lowering the discount rate and adjusting asset allocations over a long period of time. A formal proposal is expected to be presented to the CalPERS Board in October 2015. However, CalPERS has signaled it would not incorporate a new risk management approach into state contribution rates until 2017-18 at the earliest.

8. Actuarial Valuation; Determination of Required Contributions

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

A portion of the actuarial valuations performed by CalPERS actuaries are audited each year by an independent actuarial firm. The actuarial valuations specific to state employees are audited every three years. The most recent audit was for the June 30, 2012 actuarial valuation and was completed February 24, 2014.

The market value of assets measures the value of the assets available in the pension plan to pay benefits and is used to determine the required employer contributions. At the April 16 and 17, 2013 meetings, the CalPERS Board approved a plan to replace the current 15-year asset-smoothing policy with a 5-year direct-rate smoothing process and replace the current 30-year rolling amortization of unfunded liabilities with a 30-year fixed amortization period.

The Chief Actuary stated that the approach provides a single measure of funded status and unfunded liabilities, less volatility in extreme years, a faster path to full funding, and more transparency to employers about future contribution rates. These changes will accelerate the repayment of unfunded liabilities (including fiscal year 2008-09 investment losses) of the state plans in the near term. Under the CalPERS Board action, actual rates for the state will not be set using the new methods until fiscal year 2015-16, reflected in the June 30, 2014 valuation.

9. *Funding Status*

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

On April 15, 2015 the CalPERS Board of Administration adopted state employer contribution rates for fiscal year 2015-16. The June 30, 2014 State Actuarial Valuation resulted in marginally lower than expected fiscal year 2015-16 state employer contribution rates and improved funded status due to strong investment performance, an increase in new employees subject to lower pension-reform benefits, and other demographic factors. The unfunded liability allocable to state employees (excluding judges and elected officials) was $43.3 billion as of June 30, 2014, a decrease of $6.7 billion from the June 30, 2013 valuation. The funded status increased to 72.1 percent as of June 30, 2014 as compared to 66.1 percent in the June 30, 2013 valuation. This actuarial information is available on the CalPERS website: http://www.calpers.ca.gov/eip-docs/about/committee-meetings/agendas/financeadmin/201504/item-8b-00.pdf.

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TABLE 37
PERF Schedule of Funding Progress
State Employees Only
Fiscal Years Ended June 30

(Dollars in Millions)

	2009-10	2010-11	2011-12	2012-13	2013-14
Market Value of Assets (MVA)[(a)]	$76,266	$91,159	$88,810	$97,453	$111,982
Actuarial Accrued Liabilities	121,446	129,648	134,314	147,393	155,247
Excess of Market Value of Assets over AAL or Surplus (Unfunded) Actuarial Accrued Liabilities (UAAL) MVA Basis	(45,180)	(38,489)	(45,504)	(49,940)	(43,265)
Covered Payroll	16,281	16,212	15,680	15,347	16,476
Funded Ratio (MVA)	62.8%	70.3%	66.1%	66.1%	72.10%

(a) Table does not include actuarial value of assets (AVA) because CalPERS no longer measures AVA.

Note: 2013-14 information adopted by the CalPERS Board of Administration on April 15, 2015. The full State Actuarial Valuation, Fiscal Year Ended June 30, 2014 is expected to be released this fall.

Source: CalPERS State and Schools Actuarial Valuation, Fiscal Year Ended June 30, 2012 and prior years; State Actuarial Valuation, Fiscal Year Ended June 30, 2013, except for 2013-14 (see note above).

10. Other Retirement Plans

In addition to PERF, CalPERS also administers JRF, JRF II, LRF, and the 1959 Survivor Benefit program, which are defined benefit plans.

In the JRF actuarial reports for the year ended June 30, 2014, CalPERS reported that JRF had an unfunded actuarial liability of approximately $3.4 billion. For the same year, the JRF II and the LRF reported funding surpluses of $63 million and $19 million, respectively. In the 1959 Survivor Benefit program actuarial report for the year ended June 30, 2014, CalPERS reported that the program had an unfunded actuarial liability of approximately $25.5 million. The state's fiscal year 2015-16 retirement contributions from the General Fund are estimated to be $189.1 million for JRF, $68.1 million for JRF II, $4.7 million for the 1959 Survivor Benefit Program, and $1.0 million for LRF.

Further information concerning JRF, JRF II, and LRF can be found in CalPERS' financial reports and actuarial reports and is set forth in Note 24 (and the Schedule of Funding Progress included in the Required Supplementary Information) to the Audited Basic Financial Statements of the State of California for the Year Ended June 30, 2014 attached as APPENDIX _ to this Official Statement.

CalSTRS

1. *General*

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

The largest CalSTRS fund, the State Teachers' Retirement Plan (the "STRP"), is a multiple employer, cost-sharing, defined benefit plan comprised of four programs: the Defined Benefit Program (referred to in the state's 2014 Financial Statements and in this Official Statement as the "DB Program"), the Defined Benefit Supplement Program, the Cash Balance Benefit Program, and the Replacement Benefit Program. Within the DB Program there is also a Supplemental Benefits Maintenance Account (the "SBMA") which provides purchasing power protection for retired members.

The state is not an employer (with certain very limited exceptions) in any of CalSTRS programs but does contribute to the DB Program and the SBMA from its General Fund pursuant to statutes in the Education Code. The DB Program is funded through a combination of investment earnings and statutorily set contributions from three sources: the members of CalSTRS, the employers, and the state. Contribution rates for the members and employers to fund the DB Program are not adjusted to reflect or offset actual investment returns or other factors which affect the funded status of the DB Program. The same is true for the contribution rates for the state. For contributions from employers and the state, the CalSTRS Board was provided new limited rate setting authority under the provisions of AB 1469.

The SBMA is a separate account within the DB Program that is funded with a combination of investment earnings and statutorily set contributions from the state. The Purchasing Power Protection Program payments for retired members are made only to the extent funds are available in the SBMA and are not a vested benefit. See "Funding for the SBMA."

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

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

2. *Members and Employers*

As of June 30, 2014, the DB Program included 1,687 employers. The following table reflects the total number of members in the DB Program as of June 30, 2013 and 2014.

TABLE 38
DB Program Membership

Membership	June 30, 2014	June 30, 2013	Percent Change
Active Members	420,887	416,643	1.0%
Inactive Members	182,815	182,576	0.1
Retirees and Beneficiaries	275,627	269,274	2.4
Total Membership	879,329	868,493	1.2

Source: CalSTRS Comprehensive Annual Financial Report for Fiscal Year ended June 30, 2014.

3. *Retirement Benefits*

Member benefits are determined by statute in the Education Code and are generally based on a member's age, final compensation, and years of credited service. Members are 100 percent vested in retirement benefits after five years of credited service and are eligible for normal retirement at age 60 and for early retirement at age 55 or at age 50 with 30 years of credited service. The normal retirement benefit is 2 percent of final compensation (as defined in the Education Code) for each year of credited service (up to 2.4 percent of final compensation for members retiring after age 60), and members who retired on or after January 1, 2001 with 30 or more years of service by December 31, 2010 receive monthly bonus payments of up to $400 per month. Pension reform legislation signed in 2012 increased the retirement age for new CalSTRS members hired on or after January 1, 2013. New members who retire at age 62 will be eligible for a benefit equal to 2 percent of final compensation for each year of credited service (up to 2.4 percent of final compensation for members retiring after age 62).

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

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

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TABLE 39
DB Program
Schedule of Benefits Paid and Administrative Expenses

(Dollars in Millions)

Fiscal Year	Amount of Benefits Paid	Administrative Expenses
2009-10	$9,358	$140
2010-11	10,092	110
2011-12	10,677	138
2012-13	11,355	137
2013-14[1]	11,616	146

[1] Pursuant to GASB 67, the CalSTRS Comprehensive Annual Financial Report for Fiscal Year 2014 no longer displays the DB Program independent of the State Teachers' Retirement Plan. The DB Program amounts were provided by CalSTRS.
Source: CalSTRS Comprehensive Annual Financial Reports for Fiscal Years ended June 30, 2008 through 2013. CalSTRS for Fiscal Year ended June 30, 2014.

4. Funding for the DB Program

The DB Program is funded with a combination of investment income and contributions from members, employers, and the state. Although specific amounts vary from year to year, approximately 55 percent of DB Program assets were derived from investment returns, according to CalSTRS. As described below, the contribution rates of the members, employers, and the state are determined by statute in the Education Code instead of actuarially determined amounts as is done for the CalPERS system. Over time, this has contributed to an underfunding of the DB Program which has been a concern in recent years.

On June 24, 2014, the Governor signed AB 1469, a comprehensive long-term funding solution intended to eliminate the current CalSTRS unfunded liability on the DB Program by 2046. The changes in contribution rates for members, employers and the state required by AB 1469 are described below. While the plan is intended to eliminate the unfunded liability of the DB Program by 2046, there is no assurance that it will be eliminated by that date. See "—Prospective Funding Status; Future Contributions" below. Accordingly, there can be no assurances that the required amounts annually payable among the members, employers, and state will not significantly increase in the future.

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

Under AB 1469, member contributions will increase over time on July 1, 2014, 2015 and 2016 to 10.25 percent for members not subject to PEPRA and to 9.205 percent for members subject to PEPRA.

Employer Contributions. Employers are required to make contributions to the DB Program in an amount equal to 8 percent of creditable compensation plus 0.25 percent to pay costs of the unused sick leave credit; provided that a portion of the employers' contributions has in the past and may in the future be transferred to the Medicare Premium Program which has the effect of further reducing aggregate annual contributions to the DB Program.

Under AB 1469, employer contributions will increase over time on each July 1 of 2014 through 2020 to 19.1 percent of creditable compensation in fiscal year 2020-21 through fiscal year 2045-46. Beginning in fiscal year 2021-22 through fiscal year 2045-46, AB 1469 authorizes the CalSTRS Board to adjust the employer contribution up or down 1 percentage point each year, but no higher than 20.25 percent total and no lower than 8.25 percent, to eliminate the remaining unfunded obligation that existed on July 1, 2014.

State Contributions. The state's General Fund contribution to the DB Program is 2.017 percent of creditable compensation from two fiscal years prior. For example, for fiscal year 2011-12, the state's contribution was based on creditable compensation from fiscal year 2009-10. Before fiscal year 2014-15, the state also contributed an additional 0.524 percent of creditable compensation from two fiscal years prior when there is an unfunded obligation or a normal cost deficit exists for benefits in place as of July 1, 1990. Under the prior structure, the percentage was adjusted up to 0.25 percent per year to reflect the contributions required to fund the unfunded obligation or the normal cost deficit. However, the supplemental contribution could not exceed 1.505 percent of creditable compensation from two fiscal years prior.

Under AB 1469, the state will increase its supplemental contribution to the July 1, 1990 benefit obligation and it will be phased in over a three year period. Starting in fiscal year 2014-15, the supplemental contribution increased to 1.437 percent, in fiscal year 2015-16 it will increase to 2.874 percent, and in fiscal year 2016-17 through 2045-46 it will increase to 4.311 percent. Beginning fiscal year 2017-18 through fiscal year 2045-46, the CalSTRS Board is authorized to adjust the supplemental state contribution up 0.50 percent each year to eliminate the unfunded obligation for benefits in place as of July 1, 1990. If there is no unfunded obligation, the supplemental contribution shall be reduced to zero.

The plan also provides the CalSTRS Board with limited authority to increase or decrease the school and state contributions based on changing conditions. The plan is intended to eliminate the unfunded liability of the DB Program by 2046. However, while AB 1469 provides for significant increases in the statutorily required contributions to CalSTRS from the state, employers and members, it does not provide that such statutory rates be adjusted to equal actuarially required amounts from time to time. Actuarially required amounts will vary from time to time based on a variety of factors, including actuarial assumptions, investment performance and member benefits. To the extent rates established pursuant to AB 1469 are less than actuarially required amounts from time to time, such circumstances could materially adversely affect the funded status of CalSTRS.

5. Change in Accounting Standards

The 2014 CalSTRS Financial Statements were prepared in accordance with GASB Statement 67. GASB Statement 67 impacts the financial reporting requirements for CalSTRS but does not change the funding requirements for members, employers, or the state. The 2014 CalSTRS Financial Statements are available on the CalSTRS website at www.calstrs.ca.gov.

Under GASB Statement 67, CalSTRS is required to report the net pension liability (NPL) instead of the previously required unfunded actuarial accrued liability (UAAL). Additionally, CalSTRS is now required to provide a schedule in the notes to the financial statements that display the proportionate share of contributions per employer. Employers will consider this schedule when determining their proportionate share of the NPL to be recognized in their financial statements pursuant to GASB Statement 68.

Investors should note that the CalSTRS 2014 Financial Statements display the NPL of the entire STRP and do not provide a calculation of the DB Program separately. CalSTRS reports that an actuarial valuation of the DB Program will continue to be prepared. See "Actuarial Valuation" below for information about the most recent valuation report for the DB Program.

In addition, CalSTRS has allocated the proportionate share of its NPL to employers and the state (as a nonemployer contributing entity) in the 2014 CalSTRS Financial Statements to assist employers and the state in implementing GASB 68 in their respective financial statements for the year ended June 30, 2015. GASB Statement 68 requires employers and nonemployer contributing entities to report any NPL as a liability in their Statement of Net Position. In the 2014 CalSTRS Financial Statements, 37.65% of the NPL is allocated to the state. The State Controller will continue to evaluate this allocation until release of the state's financial statements for the year ended June 30, 2015 and the percentage may be less than or greater than the 37.65% contained in the 2014 CalSTRS Financial Statements.

6. Funding for the SMBA

The SBMA is a separate account within the DB Program that is funded with a combination of investment income and contributions from the state. The contribution rate for the state's funding of the SBMA is also determined by statute in the Education Code. The Purchasing Power Protection Program funded from the SBMA provides quarterly payments to retired and disabled members and beneficiaries to restore purchasing power to beneficiaries if the purchasing power of their initial retirement or disability allowances have fallen below a specified percentage. The Purchasing Power Protection Program payments are made only to the extent funds are available in the SBMA and are not a vested benefit.

The state's General Fund contribution to the SBMA is 2.5 percent of creditable compensation of the fiscal year ending in the prior calendar year, less $70 million for the fiscal year ended June 30, 2010, $71 million for the fiscal year ended June 30, 2011 and $72 million thereafter.

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The following table displays the total state contributions to CalSTRS for the DB Program, SBMA, and the additional Pre-1990 Defined Benefit supplemental payments made pursuant to AB 1469.

TABLE 40
Schedule of Contributions from the State
(Dollars in Millions)

Fiscal Year	Contributed to the DB	Contributed to the SBMA	Contributed to the Pre-1990 DB	Total Contributed
2011-12	$547	$662	$107	$1,316
2012-13	530	642	188	1,360
2013-14	527	581	252	1,360
2014-15[a]	528	582	376	1,486
2015-16	548	607	781	1,936

[a] Beginning in 2014-15 the state increased payments to the Pre-1990 Defined Benefit pursuant to AB 1469. .
Source: State of California, Department of Finance

7. Actuarial Methods and Assumptions

Although contributions are set by statute, CalSTRS retains an independent actuary (the "CalSTRS Consulting Actuary") that prepares annual actuarial valuation reports of the DB Program. The CalSTRS Consulting Actuary also prepares reports reviewing the DB Program's actual experience every four years. The CalSTRS Board uses experience reports to evaluate how realistic the long-term assumptions have been and may be in the future. The most recent valuation report for the DB Program, dated March 18, 2015 (the "2014 CalSTRS Valuation"), was prepared as of June 30, 2014, and is available on the CalSTRS website. The actuarial assumptions and methods used in the 2014 CalSTRS Valuation were based on the most recent experience report (the "2010 Experience Analysis") prepared by the CalSTRS Consulting Actuary in February 2012.

In preparing the 2014 CalSTRS Valuation, the CalSTRS Consulting Actuary used the Entry Age Actuarial Cost Method to measure the accruing costs of benefits under the DB Program. GASB Statements 67 and 68 require all state and local governments with pension liabilities to use the Entry Age Actuarial Cost Method beginning in fiscal year 2014-15 if they are not already doing so. Under the Entry Age Actuarial Cost Method, the actuarial present value of projected benefits of each individual is allocated on a level basis over the earnings of the individual between entry age and assumed exit age. The portion of the actuarial present value allocated to the valuation year is called the normal cost and represents the cost assigned to a member for a given year, such that it would meet the continuing costs of a particular benefit if contributed each year starting with the date of membership. The CalSTRS Consulting Actuary notes that the Entry Age Actuarial Cost Method is designed to produce a normal cost rate that remains a level percentage of earned salaries and that the normal cost rate is expected to remain fairly stable so long as the benefit provisions are not amended, the assumptions are not changed, membership experience emerges as assumed, and the demographic characteristics of the membership remain reasonably consistent. Some of the key demographic information taken into account includes assumptions about membership, service retirements, disability retirements, deaths, and merit salary increases, and some of the economic items include assumptions about inflation and wage growth.

The portion of the actuarial value of benefits not provided for at a valuation date by the actuarial present value of future normal costs is called the actuarial obligation, and the excess, if any, of the actuarial obligation over the actuarial value of assets is the unfunded actuarial obligation. Assumptions about how long benefits will be paid for active and inactive members and when such members will retire and how long they will live are required in calculating the actuarial obligation, and economic assumptions and valuation methods are required in valuing assets. The following table sets forth certain actuarial methods and assumptions for the four fiscal years ended June 30, 2014.

TABLE 41
Actuarial Methods and Assumptions - DB Program
(Fiscal Years Ended June 30)

Methods	2011	2012	2013	2014
Actuarial Cost Method	Entry age normal	Entry age normal	Entry age normal	Entry age normal
Amortization Method	Level Percent of payroll	Level Percent of payroll	Level Percent of payroll	Level Percent of payroll
Amortization Period	Open	Open	Open	Open
Remaining Amortization Period	30 years	30 years	30 years	30 years
Asset Valuation Method	Expected value with 33% adjustment to market value	Expected value with 33% adjustment to market value	Expected value with 33% adjustment to market value	Expected value with 33% adjustment to market value
Actuarial Assumptions				
Investment Rate of Return	7.50%	7.50%	7.50%	7.50%
Interest on Accounts	4.50	4.50	4.50	4.50
Wage Growth	3.75	3.75	3.75	3.75
Consumer Price Inflation	3.00	3.00	3.00	3.00
Post-retirement Benefit Increases	2.00 (simple)	2.00 (simple)	2.00 (simple)	2.00 (simple)

Source: CalSTRS Comprehensive Annual Financial Reports for Fiscal Years ended June 30, 2011, 2012, 2013, and 2014.

8. *Actuarial Valuation*

According to CalSTRS and as reflected in the 2014 CalSTRS Valuation, the biggest source of funding of the DB Program is investment returns, and in calculating the actuarial value of assets, contributions for the past year are added to the actuarial value of assets at the end of the prior year; benefits and expenses are subtracted; an assumed rate of return is added, and as described below, a portion of market value gains and losses are added or subtracted. The assumed investment rate of return on DB Program assets (net of investment and administrative expenses) and the assumed interest to be paid on refunds of member accounts are based in part on an inflation assumption of 3.0 percent.

Actual market returns are taken into account but to reduce rate volatility, actual market gains and losses are spread or “smoothed” over a three-year period. That is, one third of the difference between the expected actuarial value of assets and the fair market value of assets is taken into account to determine the actuarial value of assets. According to the 2014 CalSTRS Valuation, due to the asset smoothing method, approximately one-third of the approximately $16.4 billion investment gain was recognized in June 30, 2014 (the difference between the AVA and MVA in Table 36 below). GASB Statements 67 and 68, beginning in fiscal year 2013-14 for pension plans and fiscal year 2014-15 for employers, will require state and local governments with pension liabilities to recognize the differences between expected and actual investment returns over a closed 5-year period instead of the 3-year period currently used by CalSTRS. CalSTRS will continue to use 3-year period for valuation purposes and the 5-year period for financial reporting purposes.

9. Funding Status

The following table sets forth the schedule of funding progress as of the ten most recent actuarial valuation dates based on information provided by CalSTRS from the actuarial valuation reports for such years. Funding progress is measured by a comparison of DB Program assets with DB Program liabilities.

The actuarial reports for the DB Program and the SBMA Program were approved by the CalSTRS Board on April 2, 2015. Such reports are currently available on the CalSTRS website.

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TABLE 42
DB Program Schedule of Funding Progress
(Fiscal Years Ended June 30)

(Dollars in Millions)

	2009-10	2010-11	2011-12	2012-13	2013-14[b]
Market Value of Assets (MVA)[a]	$117,129	$140,040	$134,835	$147,907	$169,406
Actuarial Value of Assets (AVA)	140,291	143,930	144,232	148,614	158,495
Actuarial Accrued Liabilities (AAL)-entry age	196,315	208,405	215,189	222,281	231,213
Excess of Market Value of Assets over AAL or Surplus (Unfunded) Actuarial Accrued Liabilities (UAAL) MVA Basis[a]	(79,186)	(68,365)	(80,354)	(74,374)	(61,807)
Excess of Actuarial Value of Assets over AAL or Surplus (Unfunded) Actuarial Accrued Liabilities (UAAL) AVA Basis	(56,024)	(64,475)	(70,957)	(73,667)	(72,718)
Covered Payroll	26,275	25,576	25,388	25,479	26,470
Funded Ratio (MVA)[a]	60%	67%	63%	67%	73%
Funded Ratio (AVA)	71%	69%	67%	67%	69%

(a) The CalSTRS Comprehensive Annual Financial Report reports the SBMA assets with DB Program assets and does not provide a separate accounting of only the DB Program assets. The market value of the DB Program assets (without SBMA assets) for the fiscal years ended June 30, 2010 through 2014 was provided by the CalSTRS Consulting Actuary.

(b) The AAL is referred to as the Actuarial Obligation and the UAAL is referred to as the Unfunded Actuarial Obligation (UAO) in the 2014 CalSTRS Valuation.

Source: CalSTRS Actuarial Valuations for Fiscal Years ended June 30, 2010 through 2014.

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According to CalSTRS, the market value of the entire DB Program investment portfolio (including the SBMA assets) was $178.3 billion as of June 30, 2014, an increase from $156.7 billion (or 13.7 percent) on June 30, 2013.

10. Prospective Funding Status; Future Contributions

The CalSTRS Consulting Actuary concluded in the 2013 CalSTRS Valuation (prior to the enactment of AB 1469) that the unfunded actuarial obligation of the DB Program will not be amortized over any future period and that the DB Program is projected to have its assets depleted in about 33 years. As mentioned above, on June 24, 2014, the Governor signed AB 1469, a comprehensive funding solution intended to eliminate the CalSTRS unfunded liability on the DB Program by 2046. The changes in contribution rates for members, employers and the state required by AB 1469 are described above.

According to the 2014 CalSTRS Valuation, future revenues from contributions and appropriations for the DB Program are projected to be sufficient to finance its obligation by 2046.

11. Investment Policy; Investment Returns

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

CalSTRS has established a series of procedures and guidelines with respect to investments. The procedures, grouped together as the "Investment Policy and Management Plan," serve to guide CalSTRS asset allocation strategy for all CalSTRS' programs, including the DB Program. The CalSTRS Board reviews the Investment Policy and Management Plan annually, taking into consideration the latest actuarial study. CalSTRS follows strategic allocation guidelines that identify targets for the percentage of funds to be invested in each asset class. These targets are typically implemented over a period of several years. Additional information concerning CalSTRS investments can be found on the CalSTRS website.

The following table sets forth the total return on all CalSTRS' assets (including the DB Program assets) for the fiscal years ended June 30, 2004 through June 30, 2014, as well as time-weighted average returns.

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TABLE 43
CalSTRS Investment Results Based On Market Value

Fiscal Year	Annualized Rate of Return
2003-04	17.38%
2004-05	11.09
2005-06	13.21
2006-07	21.03
2007-08	(3.69)
2008-09	(25.03)
2009-10	12.20
2010-11	23.10
2011-12	1.84
2012-13	13.80
2013-14	18.66

Source: CalSTRS Comprehensive Annual Financial Report for Fiscal Year ended June 30, 2014.

On July 17, 2015, a CalSTRS press release reported a 4.8 percent gross investment return in fiscal year 2014-15.

TABLE 44
CalSTRS Time-Weighted Average Returns as of June 30, 2014

Period	Time-Weighted Rate of Return
3 years	11.21%
5 years	13.69
10 years	7.65

Source: CalSTRS Comprehensive Annual Financial Report for Fiscal Year ended June 30, 2014.

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June 2015

STATEMENT of GENERAL FUND CASH RECEIPTS and DISBURSEMENTS

BETTY T. YEE
California State Controller

BETTY T. YEE
California State Controller

July 10, 2015

Users of the Statement of General Fund Cash Receipts and Disbursements:

Enclosed is the Statement of General Fund Cash Receipts and Disbursements for the period July 1, 2014, through June 30, 2015. This statement reflects the State of California's General Fund cash position, and compares actual receipts and disbursements for the 2014-15 fiscal year to cash flow estimates prepared by the Department of Finance (DOF) for the 2014-15 Budget Act. The statement is prepared in compliance with Provision 7 of Budget Act item 0840-001-0001 using records compiled by the State Controller. Prior-year actual amounts are also displayed for comparative purposes.

Attachment A compares actual receipts and disbursements for the 2014-15 fiscal year to cash flow estimates published in the 2015-16 May Revision Budget. These cash flow estimates are predicated on projections and assumptions made by DOF in preparation of the 2015-16 May Revision Budget.

Attachment B compares actual receipts and disbursements for the 2014-15 fiscal year to cash flow estimates prepared by DOF, based upon the 2014-15 Budget Act.

These statements are also available on the State Controller's website at www.sco.ca.gov under the category Monthly Financial Reports.

Any questions concerning this report may be directed to Casandra Moore-Hudnall, Division Chief of Accounting and Reporting, by telephone at (916) 445-5834.

Sincerely,
Original signed by:

BETTY T. YEE

STATEMENT OF GENERAL FUND CASH RECEIPTS AND DISBURSEMENTS
A Comparison of Actual to 2015-16 May Revision Estimates
(Amounts in thousands)

	July 1 through June 30					
	2015					2014
	Actual	Estimate (a)	Actual Over or (Under) Estimate Amount		%	Actual
GENERAL FUND BEGINNING CASH BALANCE	**$ 1,921,629**	**$ 1,921,629**	**$ -**		-	$ -
Add Receipts:						
Revenues	114,277,777	113,383,598	894,179	(e)	0.8	101,572,529
Nonrevenues	2,107,803	2,073,609	34,194		1.6	2,393,668
Total Receipts	116,385,580	115,457,207	928,373		0.8	103,966,197
Less Disbursements:						
State Operations	30,505,865	31,184,321	(678,456)		(2.2)	26,448,309
Local Assistance	82,217,873	83,635,512	(1,417,639)		(1.7)	72,773,611
Capital Outlay	164,063	216,659	(52,596)		(24.3)	154,544
Nongovernmental	2,889,996	2,927,205	(37,209)		(1.3)	233,239
Total Disbursements	115,777,797	117,963,697	(2,185,900)		(1.9)	99,609,703
Receipts Over / (Under) Disbursements	607,783	(2,506,490)	3,114,273		(124.2)	4,356,494
Net Increase / (Decrease) in Temporary Loans	-	584,861	(584,861)		(100.0)	(2,434,865)
GENERAL FUND ENDING CASH BALANCE	**2,529,412**	**-**	**2,529,412**			1,921,629
Special Fund for Economic Uncertainties	449,700	-	449,700		-	1,071,100
TOTAL CASH	**$ 2,979,112**	**$ -**	**$ 2,979,112**			$ 2,992,729
BORROWABLE RESOURCES						
Available Borrowable Resources	$ 28,291,332	$ 26,604,039	$ 1,687,293	(f)(g)	6.3	$ 23,761,526
Outstanding Loans (b)	-	584,861	(584,861)		(100.0)	-
Unused Borrowable Resources	$ 28,291,332	$ 26,019,178	$ 2,272,154		8.7	$ 23,761,526

General Note:
This report is based upon funded cash. Funded cash is cash reported to and recorded in the records of the State Controller's Office. Amounts reported as funded cash may differ from amounts in other reports to the extent there are timing differences in the recording of in-transit items.

Footnotes:
(a) A Statement of Estimated Cash Flow for the 2014-15 fiscal year was prepared by the Department of Finance for the 2015-16 May Revision. Any projections or estimates are set forth as such and not as representation of facts.
(b) The $607.8 million in excess receipts over disbursements was added to the cash balance of $1.9 billion carried forward from June 30, 2014, leaving a net ending cash balance of $2.5 billion and $0.00 in outstanding loans at June 30, 2015.
(c) Negative amounts are the result of repayments received that are greater than disbursements made.
(d) Debt Service amounts are net of offsets such as federal subsidies and reimbursements from other sources. To the extent that these offsets do not occur when anticipated, there can be variances between actuals and estimates on a month-to-month basis.
(e) Includes ($343.3) million one-time adjustment for an under-allocation of sales and use tax due to local government in prior fiscal years for Public Safety and Local Revenue Realignment.
(f) $2.8 billion of Revenue Anticipation Notes (RANs) proceeds were repaid on June 22, 2015 as scheduled.
(g) In September, $1.6 billion was transferred from the General Fund to the Budget Stabilization Account (BSA). This balance in the BSA is included in the Available Borrowable Resources. In addition, $1.6 billion was transferred to the Deficit Recovery Fund to retire economic recovery bonds. This expenditure is reflected in State Operations, General Government.
(h) A $1.0 billion advance was made from the General Fund to the Medi-Cal Provider Interim Payment Fund and repayment was received in June 2015. Consequently, the disbursements for Local Assistance Medical Assistance Program increased in June.

SCHEDULE OF CASH RECEIPTS
(Amounts in thousands)

	Month of June		July 1 through June 30				
			2015				2014
					Actual Over or (Under) Estimate		
	2015	2014	Actual	Estimate (a)	Amount	%	Actual
REVENUES							
Alcoholic Beverage Excise Tax	$ 57,251	$ 31,370	$ 386,125	$ 362,437	$ 23,688	6.5	$ 329,457
Corporation Tax	2,653,896	2,480,217	10,254,954	10,284,897	(29,943)	(0.3)	8,511,645
Cigarette Tax	7,036	982	92,281	86,064	6,217	7.2	80,152
Estate, Inheritance, and Gift Tax	356	2,327	3,466	2,662	804	30.2	8,828
Insurance Companies Tax	328,667	307,021	2,450,009	2,486,044	(36,035)	(1.4)	2,365,974
Personal Income Tax	10,916,594	9,258,300	76,268,212	75,509,329	758,883	1.0	66,194,590
Retail Sales and Use Taxes	2,180,314	2,026,168	23,241,632	23,180,513	61,119 (e)	0.3	22,158,717
Vehicle License Fees	5	41	157	145	12	8.3	1,951
Pooled Money Investment Interest	4,518	3,554	18,374	18,130	244	1.3	21,351
Not Otherwise Classified	618,575	675,235	1,562,567	1,453,377	109,190	7.5	1,899,864
Total Revenues	**16,767,212**	**14,785,215**	**114,277,777**	**113,383,598**	**894,179**	**0.8**	**101,572,529**
NONREVENUES							
Transfers from Special Fund for Economic Uncertainties	-	-	621,400	621,400	-	-	-
Transfers from Other Funds	24,047	247,020	415,465	404,926	10,539	2.6	1,197,097
Miscellaneous	8,847	24,182	1,070,938	1,047,283	23,655	2.3	1,196,571
Total Nonrevenues	**32,894**	**271,202**	**2,107,803**	**2,073,609**	**34,194**	**1.6**	**2,393,668**
Total Receipts	**$ 16,800,106**	**$ 15,056,417**	**$ 116,385,580**	**$ 115,457,207**	**$ 928,373**	**0.8**	**$ 103,966,197**

See notes on page A1.

SCHEDULE OF CASH DISBURSEMENTS
(Amounts in thousands)

	Month of June		July 1 through June 30				
			2015				2014
	2015	2014	Actual	Estimate (a)	Actual Over or (Under) Estimate Amount	%	Actual
STATE OPERATIONS (c)							
Legislative/Judicial/Executive	$ 93,912	$ 32,232	$ 1,422,382	$ 1,453,974	$ (31,592)	(2.2)	$ 1,478,905
Business, Consumer Services and Housing	255	(4,415)	18,867	20,103	(1,236)	(6.1)	10,667
Transportation	5	20	49	44	5	11.4	593
Resources	3,262	64,873	1,245,744	1,564,234	(318,490)	(20.4)	1,084,230
Environmental Protection Agency	9,870	3,928	47,895	68,932	(21,037)	(30.5)	40,943
Health and Human Services:							
Health Care Services and Public Health	2,891	(2,978)	243,006	258,978	(15,972)	(6.2)	235,749
Department of State Hospitals	120,207	112,636	1,530,646	1,499,951	30,695	2.0	1,375,451
Other Health and Human Services	20,507	16,487	544,522	585,495	(40,973)	(7.0)	517,745
Education:							
University of California	-	2,889	2,990,656	2,991,732	(1,076)	-	2,852,368
State Universities and Colleges	74,958	29	2,998,093	3,021,730	(23,637)	(0.8)	2,551,907
Other Education	13,497	7,562	193,214	203,746	(10,532)	(5.2)	186,421
Dept. of Corrections and Rehabilitation	776,569	707,814	9,654,294	9,786,108	(131,814)	(1.3)	8,785,327
Governmental Operations	77,252	50,805	757,198	751,685	5,513	0.7	679,501
General Government	189,635	124,765	3,979,119	4,004,457	(25,338) (g)	(0.6)	2,136,658
Public Employees Retirement System	(199,955)	(165,093)	(102,743)	(91,555)	(11,188)	12.2	(57,274)
Debt Service (d)	199,171	130,941	4,946,112	5,009,999	(63,887)	(1.3)	4,505,852
Interest on Loans	47,570	80,051	36,811	54,708	(17,897)	(32.7)	63,266
Total State Operations	**1,429,606**	**1,162,546**	**30,505,865**	**31,184,321**	**(678,456)**	**(2.2)**	**26,448,309**
LOCAL ASSISTANCE (c)							
Public Schools - K-12	3,992,548	2,220,509	44,235,987	44,537,061	(301,074)	(0.7)	36,842,575
Community Colleges	471,904	354,750	4,862,623	4,875,012	(12,389)	(0.3)	4,001,929
Debt Service-School Building Bonds	-	-	-	(519)	519	(100.0)	-
Contributions to State Teachers' Retirement System	-	-	1,486,004	1,486,004	-	-	1,359,827
Other Education	28,564	13,863	2,489,056	2,607,677	(118,621)	(4.5)	1,744,406
School Facilities Aid	-	-	-	519	(519)	(100.0)	-
Dept. of Corrections and Rehabilitation	3,187	35	215,106	208,258	6,848	3.3	168,313
Dept. of Alcohol and Drug Program	-	605	210	(665)	875	(131.6)	(254)
Health Care Services and Public Health:							
Medical Assistance Program	1,365,163	823,586	17,064,401	17,465,233	(400,832) (h)	(2.3)	16,995,452
Other Health Care Services/Public Health	80,239	(5,461)	213,566	239,934	(26,368)	(11.0)	104,234
Developmental Services - Regional Centers	56,860	122,783	2,862,614	2,985,513	(122,899)	(4.1)	2,653,769
Department of State Hospitals	-	-	-	-	-	-	-
Dept. of Social Services:							
SSI/SSP/IHSS	331,141	57,972	4,802,967	5,147,171	(344,204)	(6.7)	4,615,418
CalWORKs	1,156	(38,517)	318,900	348,831	(29,931)	(8.6)	1,481,494
Other Social Services	16,640	109,633	735,344	721,649	13,695	1.9	766,416
Tax Relief	500	-	416,755	416,255	500	0.1	421,734
Other Local Assistance	663,522	44,557	2,514,340	2,597,579	(83,239)	(3.2)	1,618,298
Total Local Assistance	**7,011,424**	**3,704,315**	**82,217,873**	**83,635,512**	**(1,417,639)**	**(1.7)**	**72,773,611**

See notes on page A1.

(Continued)

SCHEDULE OF CASH DISBURSEMENTS (Continued)
(Amounts in thousands)

	Month of June		July 1 through June 30				
			2015				2014
	2015	2014	Actual	Estimate (a)	Actual Over or (Under) Estimate Amount	%	Actual
CAPITAL OUTLAY	**4,197**	**294**	**164,063**	**216,659**	**(52,596)**	**(24.3)**	**154,544**
NONGOVERNMENTAL (c)							
Transfer to Special Fund for Economic Uncertainties	-	-	-	-	-	-	122,900
Transfer to Budget Stabilization Account	-	-	1,606,422	1,606,422	- (g)	-	-
Transfer to Other Funds	414,998	419,500	1,353,449	1,350,491	2,958	0.2	1,093,514
Transfer to Revolving Fund	(12,237)	(7,279)	(5,729)	7,535	(13,264)	(176.0)	(12,787)
Advance:							
MediCal Provider Interim Payment	(1,000,000)	(1,000,000)	-	-	- (h)	-	(1,000,000)
State-County Property Tax Administration Program	(19,331)	(12,096)	2,981	39,550	(36,569)	(92.5)	(15,404)
Social Welfare Federal Fund	29,000	141,200	(88,170)	(117,170)	29,000	(24.8)	108,989
Local Governmental Entities	-	(60,000)	(1,161)	(1,161)	-	-	(30,913)
Tax Relief and Refund Account	-	-	-	-	-	-	-
Counties for Social Welfare	304,816	282,612	22,204	41,538	(19,334)	(46.5)	(33,060)
Total Nongovernmental	**(282,754)**	**(236,063)**	**2,889,996**	**2,927,205**	**(37,209)**	(1.3)	**233,239**
Total Disbursements	**$ 8,162,473**	**$ 4,631,092**	**$ 115,777,797**	**$ 117,963,697**	**$ (2,185,900)**	**(1.9)**	**$ 99,609,703**
TEMPORARY LOANS							
Special Fund for Economic Uncertainties	$ (449,700)	$ (1,071,100)	$ -	$ 449,700	$ (449,700)	(100.0)	$ (948,200)
Budget Stabilization Account	(1,606,422)	-	-	135,161	(135,161) (g)	(100.0)	-
Outstanding Registered Warrants Account	-	-	-	-	-	-	-
Other Internal Sources	(1,252,099)	(3,432,596)	-	-	-	-	(1,486,665)
Revenue Anticipation Notes	(2,800,000)	(4,000,000)	-	-	- (f)	-	-
Net Increase / (Decrease) Loans	**(6,108,221)**	**$ (8,503,696)**	**$ -**	**$ 584,861**	**$ (584,861)**	**(100.0)**	**$ (2,434,865)**

See notes on page A1.

(Concluded)

COMPARATIVE STATEMENT OF REVENUES RECEIVED
All Governmental Cost Funds
(Amounts in thousands)

	July 1 through June 30			
	General Fund		Special Funds	
	2015	2014	2015	2014
MAJOR TAXES, LICENSES, AND INVESTMENT INCOME:				
Alcoholic Beverage Excise Taxes	$ 386,125	$ 329,457	$ -	$ -
Corporation Tax	10,254,954	8,511,645	-	-
Cigarette Tax	92,281	80,152	800,670	700,910
Estate, Inheritance, and Gift Tax	3,466	8,828	-	4
Insurance Companies Tax	2,450,009	2,365,974	1,546,994	779,224
Motor Vehicle Fuel Tax:				
Gasoline Tax	-	-	5,412,357	5,699,170
Diesel & Liquid Petroleum Gas	-	-	358,310	317,647
Jet Fuel Tax	-	-	2,779	2,811
Vehicle License Fees	157	1,951	2,300,506	2,163,979
Motor Vehicle Registration and Other Fees	-	-	4,280,707	4,165,105
Personal Income Tax	76,268,212	66,194,590	1,367,033	1,189,222
Retail Sales and Use Taxes	23,241,632	22,158,717	14,854,858	14,006,872
Pooled Money Investment Interest	18,374	21,351	180	148
Total Major Taxes, Licenses, and Investment Income	**112,715,210**	**99,672,665**	**30,924,394**	**29,025,092**
NOT OTHERWISE CLASSIFIED:				
Alcoholic Beverage License Fee	2,924	3,239	52,813	52,727
Electrical Energy Tax	-	-	624,491	619,337
Private Rail Car Tax	8,924	8,530	-	-
Penalties on Traffic Violations	-	-	68,842	70,883
Health Care Receipts	11,243	12,569	-	-
Revenues from State Lands	271,595	417,751	-	-
Abandoned Property	367,563	485,893	-	-
Trial Court Revenues	46,745	49,003	1,599,661	1,656,797
Horse Racing Fees	1,155	1,058	12,764	12,789
Cap and Trade	-	-	1,490,776	477,140
Miscellaneous	852,418	921,821	12,453,281	10,403,490
Not Otherwise Classified	**1,562,567**	**1,899,864**	**16,302,628**	**13,293,163**
Total Revenues, All Governmental Cost Funds	**$ 114,277,777**	**$ 101,572,529**	**$ 47,227,022**	**$ 42,318,255**

See notes on page A1.

STATEMENT OF GENERAL FUND CASH RECEIPTS AND DISBURSEMENTS
A Comparison of Actual to 2014-15 Budget Act
(Amounts in thousands)

	July 1 through June 30					
	2015					2014
	Actual	Estimate (a)	Actual Over or (Under) Estimate Amount		%	Actual
GENERAL FUND BEGINNING CASH BALANCE	$ **1,921,629**	$ **1,921,629**	$ **-**		-	$ -
Add Receipts:						
Revenues	114,277,777	107,444,120	6,833,657	(e)	6.4	101,572,529
Nonrevenues	2,107,803	1,701,856	405,947		23.9	2,393,668
Total Receipts	116,385,580	109,145,976	7,239,604		6.6	103,966,197
Less Disbursements:						
State Operations	30,505,865	30,863,087	(357,222)		(1.2)	26,448,309
Local Assistance	82,217,873	82,815,663	(597,790)		(0.7)	72,773,611
Capital Outlay	164,063	168,714	(4,651)		(2.8)	154,544
Nongovernmental	2,889,996	2,869,657	20,339		0.7	233,239
Total Disbursements	115,777,797	116,717,121	(939,324)		(0.8)	99,609,703
Receipts Over / (Under) Disbursements	607,783	(7,571,145)	8,178,928		(108.0)	4,356,494
Net Increase / (Decrease) in Temporary Loans	-	5,649,516	(5,649,516)		(100.0)	(2,434,865)
GENERAL FUND ENDING CASH BALANCE	**2,529,412**	-	**2,529,412**			1,921,629
Special Fund for Economic Uncertainties	449,700	-	449,700		-	1,071,100
TOTAL CASH	$ **2,979,112**	$ -	$ **2,979,112**			$ 2,992,729
BORROWABLE RESOURCES						
Available Borrowable Resources	$ 28,291,332	$ 24,801,927	$ 3,489,405	(f)(g)	14.1	$ 23,761,526
Outstanding Loans (b)	-	5,649,516	(5,649,516)		(100.0)	-
Unused Borrowable Resources	$ 28,291,332	$ 19,152,411	$ 9,138,921		47.7	$ 23,761,526

General Note:
This report is based upon funded cash. Funded cash is cash reported to and recorded in the records of the State Controller's Office. Amounts reported as funded cash may differ from amounts in other reports to the extent there are timing differences in the recording of in-transit items.

Footnotes:
(a) A Statement of Estimated Cash Flow for the 2014-15 fiscal year was prepared by the Department of Finance for the 2014-15 Budget Act. Any projections or estimates are set forth as such and not as representation of facts.
(b) The $607.8 million in excess receipts over disbursements was added to the cash balance of $1.9 billion carried forward from June 30, 2014, leaving a net ending cash balance of $2.5 billion and $0.00 in outstanding loans at June 30, 2015.
(c) Negative amounts are the result of repayments received that are greater than disbursements made.
(d) Debt Service amounts are net of offsets such as federal subsidies and reimbursements from other sources. To the extent that these offsets do not occur when anticipated, there can be variances between actuals and estimates on a month-to-month basis.
(e) Includes ($343.3) million one-time adjustment for an under-allocation of sales and use tax due to local government in prior fiscal years for Public Safety and Local Revenue Realignment.
(f) $2.8 billion of Revenue Anticipation Notes (RANs) proceeds were repaid on June 22, 2015 as scheduled.
(g) In September, $1.6 billion was transferred from the General Fund to the Budget Stabilization Account (BSA). This balance in the BSA is included in the Available Borrowable Resources. In addition, $1.6 billion was transferred to the Deficit Recovery Fund to retire economic recovery bonds. This expenditure is reflected in State Operations, General Government.
(h) A $1.0 billion advance was made from the General Fund to the Medi-Cal Provider Interim Payment Fund and repayment was received in June 2015. Consequently, the disbursements for Local Assistance Medical Assistance Program increased in June.

SCHEDULE OF CASH RECEIPTS
(Amounts in thousands)

	Month of June		July 1 through June 30				
			2015				2014
					Actual Over or (Under) Estimate		
	2015	2014	Actual	Estimate (a)	Amount	%	Actual
REVENUES							
Alcoholic Beverage Excise Tax	$ 57,251	$ 31,370	$ 386,125	$ 358,366	$ 27,759	7.7	$ 329,457
Corporation Tax	2,653,896	2,480,217	10,254,954	8,624,157	1,630,797	18.9	8,511,645
Cigarette Tax	7,036	982	92,281	83,727	8,554	10.2	80,152
Estate, Inheritance, and Gift Tax	356	2,327	3,466	-	3,466	-	8,828
Insurance Companies Tax	328,667	307,021	2,450,009	2,381,526	68,483	2.9	2,365,974
Personal Income Tax	10,916,594	9,258,300	76,268,212	70,435,566	5,832,646	8.3	66,194,590
Retail Sales and Use Taxes	2,180,314	2,026,168	23,241,632	23,637,475	(395,843) (e)	(1.7)	22,158,717
Vehicle License Fees	5	41	157	-	157	-	1,951
Pooled Money Investment Interest	4,518	3,554	18,374	20,303	(1,929)	(9.5)	21,351
Not Otherwise Classified	618,575	675,235	1,562,567	1,903,000	(340,433)	(17.9)	1,899,864
Total Revenues	**16,767,212**	**14,785,215**	**114,277,777**	**107,444,120**	**6,833,657**	**6.4**	**101,572,529**
NONREVENUES							
Transfers from Special Fund for Economic Uncertainties	-	-	621,400	621,400	-	-	-
Transfers from Other Funds	24,047	247,020	415,465	274,985	140,480	51.1	1,197,097
Miscellaneous	8,847	24,182	1,070,938	805,471	265,467	33.0	1,196,571
Total Nonrevenues	**32,894**	**271,202**	**2,107,803**	**1,701,856**	**405,947**	**23.9**	**2,393,668**
Total Receipts	**$ 16,800,106**	**$ 15,056,417**	**$ 116,385,580**	**$ 109,145,976**	**$ 7,239,604**	**6.6**	**$ 103,966,197**

See notes on page B1.

SCHEDULE OF CASH DISBURSEMENTS
(Amounts in thousands)

	Month of June		July 1 through June 30				
			2015				2014
	2015	2014	Actual	Estimate (a)	Actual Over or (Under) Estimate Amount	Actual Over or (Under) Estimate %	Actual
STATE OPERATIONS (c)							
Legislative/Judicial/Executive	$ 93,912	$ 32,232	$ 1,422,382	$ 1,409,643	$ 12,739	0.9	$ 1,478,905
Business, Consumer Services and Housing	255	(4,415)	18,867	19,404	(537)	(2.8)	10,667
Transportation	5	20	49	-	49	-	593
Resources	3,262	64,873	1,245,744	1,255,896	(10,152)	(0.8)	1,084,230
Environmental Protection Agency	9,870	3,928	47,895	57,837	(9,942)	(17.2)	40,943
Health and Human Services:							
Health Care Services and Public Health	2,891	(2,978)	243,006	251,811	(8,805)	(3.5)	235,749
Department of State Hospitals	120,207	112,636	1,530,646	1,450,190	80,456	5.5	1,375,451
Other Health and Human Services	20,507	16,487	544,522	541,148	3,374	0.6	517,745
Education:							
University of California	-	2,889	2,990,656	2,986,670	3,986	0.1	2,852,368
State Universities and Colleges	74,958	29	2,998,093	2,966,298	31,795	1.1	2,551,907
Other Education	13,497	7,562	193,214	222,009	(28,795)	(13.0)	186,421
Dept. of Corrections and Rehabilitation	776,569	707,814	9,654,294	9,371,735	282,559	3.0	8,785,327
Governmental Operations	77,252	50,805	757,198	688,404	68,794	10.0	679,501
General Government	189,635	124,765	3,979,119	4,339,506	(360,387) (g)	(8.3)	2,136,658
Public Employees Retirement System	(199,955)	(165,093)	(102,743)	(52,241)	(50,502)	96.7	(57,274)
Debt Service (d)	199,171	130,941	4,946,112	5,267,597	(321,485)	(6.1)	4,505,852
Interest on Loans	47,570	80,051	36,811	87,180	(50,369)	(57.8)	63,266
Total State Operations	**1,429,606**	**1,162,546**	**30,505,865**	**30,863,087**	**(357,222)**	**(1.2)**	**26,448,309**
LOCAL ASSISTANCE (c)							
Public Schools - K-12	3,992,548	2,220,509	44,235,987	44,843,289	(607,302)	(1.4)	36,842,575
Community Colleges	471,904	354,750	4,862,623	4,700,833	161,790	3.4	4,001,929
Debt Service-School Building Bonds	-	-	-	(519)	519	(100.0)	-
Contributions to State Teachers' Retirement System	-	-	1,486,004	1,486,004	-	-	1,359,827
Other Education	28,564	13,863	2,489,056	2,886,740	(397,684)	(13.8)	1,744,406
School Facilities Aid	-	-	-	519	(519)	(100.0)	-
Dept. of Corrections and Rehabilitation	3,187	35	215,106	218,909	(3,803)	(1.7)	168,313
Dept. of Alcohol and Drug Program	-	605	210	-	210	-	(254)
Health Care Services and Public Health:							
Medical Assistance Program	1,365,163	823,586	17,064,401	17,226,470	(162,069) (h)	(0.9)	16,995,452
Other Health Care Services/Public Health	80,239	(5,461)	213,566	79,466	134,100	168.8	104,234
Developmental Services - Regional Centers	56,860	122,783	2,862,614	2,477,878	384,736	15.5	2,653,769
Department of State Hospitals	-	-	-	-	-	-	-
Dept. of Social Services:							
SSI/SSP/IHSS	331,141	57,972	4,802,967	4,792,488	10,479	0.2	4,615,418
CalWORKs	1,156	(38,517)	318,900	651,125	(332,225)	(51.0)	1,481,494
Other Social Services	16,640	109,633	735,344	829,976	(94,632)	(11.4)	766,416
Tax Relief	500	-	416,755	420,183	(3,428)	(0.8)	421,734
Other Local Assistance	663,522	44,557	2,514,340	2,202,302	312,038	14.2	1,618,298
Total Local Assistance	**7,011,424**	**3,704,315**	**82,217,873**	**82,815,663**	**(597,790)**	**(0.7)**	**72,773,611**

See notes on page B1.

(Continued)

SCHEDULE OF CASH DISBURSEMENTS (Continued)
(Amounts in thousands)

	Month of June		July 1 through June 30				
			2015				2014
	2015	2014	Actual	Estimate (a)	Actual Over or (Under) Estimate Amount	%	Actual
CAPITAL OUTLAY	**4,197**	**294**	**164,063**	**168,714**	**(4,651)**	**(2.8)**	**154,544**
NONGOVERNMENTAL (c)							
Transfer to Special Fund for Economic Uncertainties	-	-	-	-	-	-	122,900
Transfer to Budget Stabilization Account	-	-	1,606,422	1,606,422	- (g)	-	-
Transfer to Other Funds	414,998	419,500	1,353,449	1,196,066	157,383	13.2	1,093,514
Transfer to Revolving Fund	(12,237)	(7,279)	(5,729)	-	(5,729)	-	(12,787)
Advance:							
MediCal Provider Interim Payment	(1,000,000)	(1,000,000)	-	-	- (h)	-	(1,000,000)
State-County Property Tax Administration Program	(19,331)	(12,096)	2,981	-	2,981	-	(15,404)
Social Welfare Federal Fund	29,000	141,200	(88,170)	-	(88,170)	-	108,989
Local Governmental Entities	-	(60,000)	(1,161)	-	(1,161)	-	(30,913)
Tax Relief and Refund Account	-	-	-	-	-	-	-
Counties for Social Welfare	304,816	282,612	22,204	67,169	(44,965)	(66.9)	(33,060)
Total Nongovernmental	**(282,754)**	**(236,063)**	**2,889,996**	**2,869,657**	**20,339**	**0.7**	**233,239**
Total Disbursements	**$ 8,162,473**	**$ 4,631,092**	**$ 115,777,797**	**$ 116,717,121**	**$ (939,324)**	**(0.8)**	**$ 99,609,703**
TEMPORARY LOANS							
Special Fund for Economic Uncertainties	$ (449,700)	$ (1,071,100)	$ -	$ 449,700	$ (449,700)	(100.0)	$ (948,200)
Budget Stabilization Account	(1,606,422)	-	-	1,606,422	(1,606,422) (g)	(100.0)	-
Outstanding Registered Warrants Account	-	-	-	-	-	-	-
Other Internal Sources	(1,252,099)	(3,432,596)	-	3,593,394	(3,593,394)	(100.0)	(1,486,665)
Revenue Anticipation Notes	(2,800,000)	(4,000,000)	-	-	- (f)	-	-
Net Increase / (Decrease) Loans	**(6,108,221)**	**$ (8,503,696)**	**$ -**	**$ 5,649,516**	**$ (5,649,516)**	**(100.0)**	**$ (2,434,865)**

See notes on page B1.

(Concluded)

July 2015

STATEMENT of GENERAL FUND CASH RECEIPTS and DISBURSEMENTS

BETTY T. YEE
California State Controller

BETTY T. YEE
California State Controller

August 10, 2015

Users of the Statement of General Fund Cash Receipts and Disbursements:

Enclosed is the Statement of General Fund Cash Receipts and Disbursements for the period July 1, 2015, through July 31, 2015. This statement reflects the State of California's General Fund cash position, and compares actual receipts and disbursements for the 2015-16 fiscal year to cash flow estimates prepared by the Department of Finance (DOF) for the 2015-16 Budget Act. The statement is prepared in compliance with Provision 5 of Budget Act item 0840-001-0001, using records compiled by the State Controller. Prior-year actual amounts are also displayed for comparative purposes.

Attachment A compares actual receipts and disbursements for the 2015-16 fiscal year to cash flow estimates prepared by DOF, based upon the 2015-16 Budget Act.

These statements are also available on the State Controller's website at www.sco.ca.gov under the category Monthly Financial Reports.

Please direct any questions relating to this report to Casandra Moore-Hudnall, Division Chief of Accounting and Reporting, by telephone at (916) 445-5834.

Sincerely,
Original signed by:

BETTY T. YEE

STATEMENT OF GENERAL FUND CASH RECEIPTS AND DISBURSEMENTS
A Comparison of Actual to 2015-16 Budget Act
(Amounts in thousands)

	July 1 through July 31				
	2015				2014
	Actual	Estimate (a)	Actual Over or (Under) Estimate Amount	%	Actual
GENERAL FUND BEGINNING CASH BALANCE	**$ 2,529,412**	**$ 2,529,412**	**$ -**	-	$ 1,921,629
Add Receipts:					
Revenues	5,715,877	5,728,149	(12,272)	(0.2)	5,394,759
Nonrevenues	184,910	135,500	49,410	36.5	146,829
Total Receipts	5,900,787	5,863,649	37,138	0.6	5,541,588
Less Disbursements:					
State Operations	2,846,785	2,577,179	269,606	10.5	2,620,659
Local Assistance	8,010,385	8,322,455	(312,070)	(3.7)	12,590,071
Capital Outlay	20,805	8,547	12,258	143.4	766
Nongovernmental	(206,166)	(201,395)	(4,771)	-	154,000
Total Disbursements	10,671,809	10,706,786	(34,977)	(0.3)	15,365,496
Receipts Over / (Under) Disbursements	(4,771,022)	(4,843,137)	72,115	(1.5)	(9,823,908)
Net Increase / (Decrease) in Temporary Loans	2,241,610	2,313,725	(72,115)	(3.1)	7,902,279
GENERAL FUND ENDING CASH BALANCE	**-**	-	**-**		-
Special Fund for Economic Uncertainties	-	-	-	-	-
TOTAL CASH	**$ -**	**$ -**	**$ -**		$ -

BORROWABLE RESOURCES					
Available Borrowable Resources	$ 28,340,480	$ 25,815,000	$ 2,525,480	9.8	$ 25,699,327
Outstanding Loans (b)	2,241,610	2,313,725	(72,115)	(3.1)	7,902,279
Unused Borrowable Resources	$ 26,098,870	$ 23,501,275	$ 2,597,595	11.1	$ 17,797,048

General Note:
This report is based upon funded cash. Funded cash is cash reported to and recorded in the records of the State Controller's Office. Amounts reported as funded cash may differ from amounts in other reports to the extent there are timing differences in the recording of in-transit items.

Footnotes:
(a) A Statement of Estimated Cash Flow for the 2015-16 fiscal year was prepared by the Department of Finance for the 2015-16 Budget Act. Any projections or estimates are set forth as such and not as representation of facts.
(b) Outstanding loan balance of $2.2 billion is comprised of $2.2 billion of internal borrowing. Current balance is comprised of $0.0 billion carried forward from June 30, 2015, plus current year Net Increase/(Decrease) in Temporary Loans of $2.2 billion.
(c) Negative amounts are the result of repayments received that are greater than disbursements made.
(d) Debt Service amounts are net of offsets such as federal subsidies and reimbursements from other sources. To the extent that these offsets do not occur when anticipated, there can be variances between actuals and estimates on a month-to-month basis.

SCHEDULE OF CASH RECEIPTS
(Amounts in thousands)

	Month of July		July 1 through July 31					
			2015					2014
	2015	2014	Actual	Estimate (a)	Actual Over or (Under) Estimate Amount	%		Actual
REVENUES								
Alcoholic Beverage Excise Tax	$ 37,752	$ 64,056	$ 37,752	$ 35,195	$ 2,557	7.3		$ 64,056
Corporation Tax	291,185	320,348	291,185	292,193	(1,008)	(0.3)		320,348
Cigarette Tax	7,322	13,626	7,322	7,245	77	1.1		13,626
Estate, Inheritance, and Gift Tax	209	327	209	-	209	-		327
Insurance Companies Tax	22,702	17,885	22,702	8,460	14,242	168.3		17,885
Personal Income Tax	4,459,943	4,067,699	4,459,943	4,340,395	119,548	2.8		4,067,699
Retail Sales and Use Taxes	858,692	919,815	858,692	972,492	(113,800)	(11.7)		919,815
Vehicle License Fees	3	21	3	-	3	-		21
Pooled Money Investment Interest	911	1,683	911	2,290	(1,379)	(60.2)		1,683
Not Otherwise Classified	37,158	(10,701)	37,158	69,879	(32,721)	(46.8)		(10,701)
Total Revenues	**5,715,877**	**5,394,759**	**5,715,877**	**5,728,149**	**(12,272)**	**(0.2)**		**5,394,759**
NONREVENUES								
Transfers from Special Fund for Economic Uncertainties	-	24,242	-	-	-	-		24,242
Transfers from Other Funds	156,873	108,858	156,873	125,900	30,973	24.6		108,858
Miscellaneous	28,037	13,729	28,037	9,600	18,437	192.1		13,729
Total Nonrevenues	**184,910**	**146,829**	**184,910**	**135,500**	**49,410**	**36.5**		**146,829**
Total Receipts	**$ 5,900,787**	**$ 5,541,588**	**$ 5,900,787**	**$ 5,863,649**	**$ 37,138**	**0.6**		**$ 5,541,588**

See notes on page A1.

SCHEDULE OF CASH DISBURSEMENTS
(Amounts in thousands)

	Month of July		July 1 through July 31				
			2015				2014
	2015	2014	Actual	Estimate (a)	Actual Over or (Under) Estimate Amount	%	Actual
STATE OPERATIONS (c)							
Legislative/Judicial/Executive	$ 186,740	$ 215,307	$ 186,740	$ 208,435	$ (21,695)	(10.4)	$ 215,307
Business, Consumer Services and Housing	1,537	1,622	1,537	2,800	(1,263)	(45.1)	1,622
Transportation	-	-	-	-	-	-	-
Resources	133,815	120,307	133,815	182,003	(48,188)	(26.5)	120,307
Environmental Protection Agency	2,989	3,875	2,989	4,023	(1,034)	(25.7)	3,875
Health and Human Services:							
Health Care Services and Public Health	72,562	66,795	72,562	64,853	7,709	11.9	66,795
Department of State Hospitals	130,568	134,387	130,568	136,581	(6,013)	(4.4)	134,387
Other Health and Human Services	79,250	74,166	79,250	54,866	24,384	44.4	74,166
Education:							
University of California	293,086	283,763	293,086	292,548	538	0.2	283,763
State Universities and Colleges	306,713	244,546	306,713	228,593	78,120	34.2	244,546
Other Education	25,953	24,707	25,953	26,877	(924)	(3.4)	24,707
Dept. of Corrections and Rehabilitation	824,854	862,005	824,854	902,584	(77,730)	(8.6)	862,005
Governmental Operations	56,772	51,858	56,772	54,144	2,628	4.9	51,858
General Government	236,118	278,379	236,118	189,503	46,615	24.6	278,379
Public Employees Retirement System	382,441	299,438	382,441	291,121	91,320	31.4	299,438
Debt Service (d)	112,521	(46,096)	112,521	(72,623)	185,144	(254.9)	(46,096)
Interest on Loans	866	5,600	866	10,871	(10,005)	(92.0)	5,600
Total State Operations	**2,846,785**	**2,620,659**	**2,846,785**	**2,577,179**	**269,606**	**10.5**	**2,620,659**
LOCAL ASSISTANCE (c)							
Public Schools - K-12	2,066,658	6,567,285	2,066,658	2,053,021	13,637	0.7	6,567,285
Community Colleges	253,604	848,873	253,604	300,925	(47,321)	(15.7)	848,873
Debt Service-School Building Bonds	-	-	-	-	-	-	-
Contributions to State Teachers' Retirement System	332,081	225,955	332,081	332,081	-	-	225,955
Other Education	190,149	229,549	190,149	226,040	(35,891)	(15.9)	229,549
School Facilities Aid	-	-	-	-	-	-	-
Dept. of Corrections and Rehabilitation	2,877	12	2,877	1,142	1,735	151.9	12
Dept. of Alcohol and Drug Program	-	210	-	-	-	-	210
Health Care Services and Public Health:							
Medical Assistance Program	3,132,914	2,709,894	3,132,914	2,844,772	288,142	10.1	2,709,894
Other Health Care Services/Public Health	(15,044)	7,875	(15,044)	22,470	(37,514)	(167.0)	7,875
Developmental Services - Regional Centers	635,552	552,493	635,552	591,644	43,908	7.4	552,493
Department of State Hospitals	-	-	-	-	-	-	-
Dept. of Social Services:							
SSI/SSP/IHSS	849,715	1,045,809	849,715	1,126,647	(276,932)	(24.6)	1,045,809
CalWORKs	125,298	(60,550)	125,298	200,321	(75,023)	(37.5)	(60,550)
Other Social Services	(5,949)	39,905	(5,949)	58,284	(64,233)	(110.2)	39,905
Tax Relief	-	-	-	-	-	-	-
Other Local Assistance	442,530	422,761	442,530	565,108	(122,578)	(21.7)	422,761
Total Local Assistance	**8,010,385**	**12,590,071**	**8,010,385**	**8,322,455**	**(312,070)**	**(3.7)**	**12,590,071**

See notes on page A1.

(Continued)

SCHEDULE OF CASH DISBURSEMENTS (Continued)
(Amounts in thousands)

	Month of July		July 1 through July 31				
			2015				2014
	2015	2014	Actual	Estimate (a)	Actual Over or (Under) Estimate Amount	%	Actual
CAPITAL OUTLAY	**20,805**	**766**	**20,805**	**8,547**	**12,258**	**143.4**	**766**
NONGOVERNMENTAL (c)							
Transfer to Special Fund for Economic Uncertainties	-	-	-	-	-	-	-
Transfer to Budget Stabilization Account	-	-	-	-	-	-	-
Transfer to Other Funds	108,011	531,289	108,011	109,071	(1,060)	(1.0)	531,289
Transfer to Revolving Fund	(1,993)	1,062	(1,993)	-	(1,993)	-	1,062
Advance:							
MediCal Provider Interim Payment	-	-	-	-	-	-	-
State-County Property Tax Administration Program	28,029	28,261	28,029	-	28,029	-	28,261
Social Welfare Federal Fund	(35,413)	(124,000)	(35,413)	-	(35,413)	-	(124,000)
Local Governmental Entities	-	-	-	-	-	-	-
Tax Relief and Refund Account	-	-	-	-	-	-	-
Counties for Social Welfare	(304,800)	(282,612)	(304,800)	(310,466)	5,666	(1.8)	(282,612)
Total Nongovernmental	**(206,166)**	**154,000**	**(206,166)**	**(201,395)**	**(4,771)**	2.4	**154,000**
Total Disbursements	**$ 10,671,809**	**$ 15,365,496**	**$ 10,671,809**	**$ 10,706,786**	**$ (34,977)**	**(0.3)**	**$ 15,365,496**
TEMPORARY LOANS							
Special Fund for Economic Uncertainties	$ 449,700	$ 1,046,858	$ 449,700	$ 449,700	$ -	-	$ 1,046,858
Budget Stabilization Account	1,606,422	-	1,606,422	1,606,422	-	-	-
Outstanding Registered Warrants Account	-	-	-	-	-	-	-
Other Internal Sources	185,488	6,855,421	185,488	257,603	(72,115)	(28.0)	6,855,421
Revenue Anticipation Notes	-	-	-	-	-	-	-
Net Increase / (Decrease) Loans	**2,241,610**	**$ 7,902,279**	**$ 2,241,610**	**$ 2,313,725**	**$ (72,115)**	**(3.1)**	**$ 7,902,279**

See notes on page A1.

(Concluded)

COMPARATIVE STATEMENT OF REVENUES RECEIVED
All Governmental Cost Funds
(Amounts in thousands)

	July 1 through July 31			
	General Fund		Special Funds	
	2015	2014	2015	2014
MAJOR TAXES, LICENSES, AND INVESTMENT INCOME:				
Alcoholic Beverage Excise Taxes	$ 37,752	$ 64,056	$ -	$ -
Corporation Tax	291,185	320,348	-	-
Cigarette Tax	7,322	13,626	63,920	114,566
Estate, Inheritance, and Gift Tax	209	327	-	-
Insurance Companies Tax	22,702	17,885	18,219	87,063
Motor Vehicle Fuel Tax:				
Gasoline Tax	-	-	465,780	503,010
Diesel & Liquid Petroleum Gas	-	-	27,229	25,919
Jet Fuel Tax	-	-	193	130
Vehicle License Fees	3	21	184,707	169,673
Motor Vehicle Registration and Other Fees	-	-	314,404	307,308
Personal Income Tax	4,459,943	4,067,699	81,619	79,134
Retail Sales and Use Taxes	858,692	919,815	581,849	570,633
Pooled Money Investment Interest	911	1,683	5	15
Total Major Taxes, Licenses, and Investment Income	**5,678,719**	**5,405,460**	**1,737,925**	**1,857,451**
NOT OTHERWISE CLASSIFIED:				
Alcoholic Beverage License Fee	272	269	7,537	7,124
Electrical Energy Tax	-	-	871	383
Private Rail Car Tax	-	-	-	-
Penalties on Traffic Violations	-	-	-	-
Health Care Receipts	807	1	-	-
Revenues from State Lands	9,110	36,693	-	-
Abandoned Property	(9,828)	(85,918)	-	-
Trial Court Revenues	3,785	4,574	88,848	101,549
Horse Racing Fees	67	121	77	476
Cap and Trade	-	-	-	-
Miscellaneous	32,945	33,559	1,655,454	632,398
Not Otherwise Classified	**37,158**	**(10,701)**	**1,752,787**	**741,930**
Total Revenues, All Governmental Cost Funds	**$ 5,715,877**	**$ 5,394,759**	**$ 3,490,712**	**$ 2,599,381**

See notes on page A1.

APPENDIX B

THE BOOK-ENTRY ONLY SYSTEM

The information in numbered paragraphs 1 through 10 of this Appendix B regarding DTC's Book Entry System has been provided by DTC for use in securities offering documents, and the State takes no responsibility for the accuracy or completeness thereof. The State cannot and does not give any assurances that DTC, DTC Participants or Indirect Participants will distribute to the Beneficial Owners either (a) payments of interest, principal or premium, if any, with respect to the Bonds or (b) certificates representing ownership interest in or other confirmation of ownership interest in the Bonds, or that they will so do on a timely basis or that DTC, DTC Participants or DTC Indirect Participants will act in the manner described in this Official Statement. The current "Rules" applicable to DTC are on file with the Securities and Exchange Commission and the current "Procedures" of DTC to be followed in dealing with DTC Participants are on file with DTC.

1. The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the bonds (the "Bonds"). The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for each maturity of the Construction Bonds and the Refunding Bonds, respectively, each in the aggregate principal amount of such maturity, and will be deposited with DTC. If, however, the aggregate principal amount of any such maturity exceeds $500 million, one certificate will be issued with respect to each $500 million of principal amount and an additional certificate will be issued with respect to any remaining principal amount of such maturity.

2. DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable

to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

3. Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

4. To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds. DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

5. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

6. Redemption notices shall be sent to DTC. If less than all of the Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

7. Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the State Treasurer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

8. Redemption proceeds, principal and interest payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the State Treasurer, on the payable dates in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC or the State Treasurer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, principal and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the State Treasurer, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

9. DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the State Treasurer. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered.

10. The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the State believes to be reliable, but the State takes no responsibility for the accuracy thereof.

The foregoing description of the procedures and record keeping with respect to beneficial ownership interests in the Bonds, payment of principal of and interest and other payments with respect to the Bonds to Direct Participants, Indirect Participants or Beneficial Owners, confirmation and transfer of beneficial ownership interest in such Bonds and other related transactions by and between DTC, the Direct Participants, the Indirect Participants and the Beneficial Owners is based solely on information provided by DTC. Accordingly, no representations can be made concerning these matters and neither the Direct Participants, the Indirect Participants nor the Beneficial Owners should rely on the foregoing information with respect to such matters but should instead confirm the same with DTC or the Participants, as the case may be. The State Treasurer will not have any responsibility or obligation to Direct Participants and Indirect Participants or the persons for whom they act as nominees with respect to the Bonds.

THE STATE TREASURER, AS LONG AS A BOOK-ENTRY ONLY SYSTEM IS USED FOR THE BONDS, WILL SEND ANY NOTICE OF REDEMPTION OR OTHER NOTICES FOR OWNERS TO ONLY DTC. ANY FAILURE OF DTC TO ADVISE ANY DTC PARTICIPANT, OR OF ANY DTC PARTICIPANT TO NOTIFY ANY BENEFICIAL OWNER, OF ANY NOTICE AND ITS CONTENT OR EFFECT WILL NOT AFFECT THE VALIDITY OR SUFFICIENCY OF THE PROCEEDINGS RELATING TO THE REDEMPTION OF THE BONDS CALLED FOR REDEMPTION OR OF ANY OTHER ACTION PREMISED ON SUCH NOTICE.

SO LONG AS CEDE & CO. IS THE REGISTERED OWNER OF THE BONDS, AS NOMINEE OF DTC, REFERENCES HEREIN TO THE HOLDERS OF THE BONDS (OTHER

THAN UNDER THE CAPTION "TAX MATTERS") SHALL MEAN CEDE & CO., AS AFORESAID, AND SHALL NOT MEAN THE BENEFICIAL OWNERS OF THE BONDS.

The State Treasurer may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). If the State Treasurer determines not to continue the DTC book-entry only system, or DTC discontinues providing its services with respect to the Bonds and the State Treasurer does not select another qualified securities depository, the State will deliver physical Bond certificates to the Beneficial Owners. The Bonds may thereafter be transferred upon the books of the State Treasurer by the registered owners, in person or by authorized attorney, upon surrender of Bonds at the Office of the State Treasurer in Sacramento, California, accompanied by delivery of an executed instrument of transfer in a form approved by the State Treasurer and upon payment of any charges provided for in the Resolutions. Certificated bonds may be exchanged for Bonds of other authorized denominations of the same aggregate principal amount and maturity at the Office of the State Treasurer in Sacramento, California, upon payment of any charges provided for in the Resolutions. No transfer or exchange of Bonds will be made by the State Treasurer during the period between the record date and the next Interest Payment Date.

APPENDIX C

FORM OF CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (this "Disclosure Certificate") is executed and delivered as of September ___, 2015 by the Treasurer of the State of California (the "State Treasurer") in connection with the issuance of $__________ aggregate principal amount of the State of California Various Purpose General Obligation Bonds and $___________ aggregate principal amount of the State of California Various Purpose General Obligation Refunding Bonds (collectively, the "Bonds") as authorized by various acts of the State of California legislature (the "Acts"). The Bonds are being issued pursuant to resolutions of finance committees (the "Resolutions") designated under the Acts. Pursuant to the Resolutions, the State Treasurer, on behalf of the State of California (the "State"), covenants and agrees as follows:

Section 1. Nature of the Disclosure Certificate. This Disclosure Certificate is executed and delivered for the benefit of the Holders and Beneficial Owners (as defined below) of the Bonds from time to time, and in order to assist the Participating Underwriters (as defined below) in complying with the Rule (as defined below), but shall not be deemed to create any monetary liability on the part of the State or the State Treasurer to any other persons, including Holders or Beneficial Owners of the Bonds based on the Rule. The sole remedy in the event of any failure of the State Treasurer to comply with this Disclosure Certificate shall be an action to compel performance of any act required hereunder.

Section 2. Definitions. In addition to the definitions set forth in the Resolutions, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

"Annual Report" shall mean any Annual Report provided by the State Treasurer pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

"Beneficial Owner" shall mean any person who has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries).

"Dissemination Agent" shall mean the State Treasurer, acting in its capacity as Dissemination Agent hereunder, or any successor Dissemination Agent designated in writing by the State Treasurer and which has filed with the State Treasurer a written acceptance of such designation.

"Holder" shall mean any person listed on the registration books of the State Treasurer as the registered owner of any Bonds.

"Listed Event" shall mean any of the events listed in Section 5(a) or (b) of this Disclosure Certificate.

"MSRB" shall mean the Municipal Securities Rulemaking Board or any other entity designated or authorized by the SEC to receive reports or notices pursuant to the Rule. Until otherwise designated by the MSRB or the SEC, filings with the MSRB are to be made through the

Electronic Municipal Market Access (EMMA) website of the MSRB, currently located at http://emma.msrb.org.

"Official Statement" shall mean the official statement relating to the Bonds, dated August ___, 2015.

"Participating Underwriter" shall mean any of the original underwriters of the Bonds required to comply with the Rule in connection with the offering of the Bonds.

"Rule" shall mean Rule 15c2-12(b)(5) adopted by the SEC under the Securities Exchange Act of 1934, as the same may be amended from time to time.

"SEC" shall mean the Securities and Exchange Commission.

"State" shall mean the State of California.

Section 3. Provision of Annual Reports.

(a) The State Treasurer on behalf of the State shall, or shall cause the Dissemination Agent to, not later than April 1 of each year in which the Bonds are outstanding, commencing with the report for the 2014-15 fiscal year (which is due not later than April 1, 2016), provide to the MSRB an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. The Annual Report must be submitted in electronic format, accompanied by such identifying information as is prescribed by the MSRB, and may cross-reference other information as provided in Section 4 of this Disclosure Certificate; provided, that the audited financial statements of the State may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date in accordance with Section 4(a). If the State's fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(f). The Annual Report shall be submitted on a standard form in use by industry participants or other appropriate form and shall identify the Bonds by name and CUSIP number.

(b) Not later than 15 business days prior to said date, the State Treasurer shall provide the Annual Report to the Dissemination Agent (if other than the State Treasurer). If the State Treasurer is unable to provide to the MSRB an Annual Report by the date required in subsection (a), the State Treasurer shall send a notice to the MSRB in substantially the form attached as Exhibit A.

(c) The Dissemination Agent shall (if the Dissemination Agent is other than the State Treasurer) file a report with the State Treasurer certifying that the Annual Report has been provided pursuant to this Disclosure Certificate, stating the date it was provided to the MSRB.

Section 4. Content of Annual Reports. The Annual Report shall contain or include by reference the following:

(a) The audited Basic Financial Statements of the State for the fiscal year ended on the previous June 30, prepared in accordance with generally accepted accounting principles promulgated to apply to government entities from time to time by the Governmental Accounting Standards Board. If the State's audited financial statements are not available by the time the Annual Report is required to be provided to the MSRB pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be provided to the MSRB in the same manner as the Annual Report when they become available.

(b) Financial information relating to the State's General Fund budget for the fiscal year ended on the previous June 30 and information concerning the State budget for the fiscal year in which the Annual Report is issued. Such information shall describe the sources of revenues, the principal categories of expenditures, and changes in fund balances, a summary of expected State revenues and budgeted expenditures, and significant assumptions relating to revenue and expenditure expectations; including updating information of the type appearing in the following tables contained under the caption APPENDIX A—"THE STATE OF CALIFORNIA—CURRENT STATE BUDGET" in the Official Statement:

Tables Entitled

Statement of Estimated Revenues, Expenditures, and Changes in Fund Balance—General Fund

General Fund Revenue by Sources and Expenditures

(c) Information concerning the total amount of the State's authorized and outstanding debt, long-term lease obligations and other long-term liabilities as of the most recent June 30, which debt is supported by payments from the State's General Fund and which includes short-term debt. Such information shall include schedules of debt service for outstanding general obligation bonds and lease-purchase debt. This shall be accomplished by updating information of the type appearing in the following tables contained under the caption APPENDIX A—"THE STATE OF CALIFORNIA— STATE DEBT TABLES" in the Official Statement.

Tables Entitled

Outstanding State Debt

Authorized and Outstanding General Obligation Bonds

General Obligation and Revenue Bonds—Summary of Debt Service Requirements

Schedule of Debt Service Requirements for General Fund—Non-Self Liquidating Bonds—Fixed Rate

Schedule of Debt Service Requirements for General Fund—Non-Self Liquidating Bonds—Variable Rate

Schedule of Debt Service Requirements for Enterprise Fund—Self Liquidating Bonds—Fixed Rate

Schedule of Debt Service Requirements for Lease-Revenue Debt—Fixed Rate

State Public Works Board and Other Lease-Revenue Financing Outstanding Issues

State Agency Revenue Bonds and Conduit Financing

Notwithstanding the foregoing, information referenced in this Section 4(c) will no longer be updated for any twelve month period ended June 30 that commences after all of the debt, long-term lease obligations, other long-term liabilities and/or short-term debt referenced in the respective table, as applicable, is no longer outstanding.

(d) Financial information relating to the State referenced in section 4(b) and 4(c) may be updated from time to time, and such updates may involve displaying data in a different format or table or eliminating data that is no longer available.

(e) The Annual Report may consist of one or more documents. Any or all of the items listed above may be included in the Annual Report by reference to other documents that have been filed by the State with the MSRB, including any final official statement (in which case such final official statement must also be available from the MSRB). The State Treasurer shall clearly identify in the Annual Report each such document so included by reference.

Section 5. Reporting of Significant Events.

(a) The State Treasurer shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds in a timely manner not later than ten business days after the occurrence of the event:

1. Principal and interest payment delinquencies;

2. Unscheduled draws on debt service reserves reflecting financial difficulties;

3. Unscheduled draws on credit enhancements reflecting financial difficulties;

4. Substitution of credit or liquidity providers, or their failure to perform;

5. Adverse tax opinions or issuance by the Internal Revenue Service of proposed or final determination of taxability or of a Notice of Proposed Issue (IRS Form 5701 TEB);

6. Tender offers;

7. Defeasances;

8. Rating changes; or

9. Bankruptcy, insolvency, receivership or similar event of the obligated person.

Note: for the purposes of the event identified in subparagraph (9), the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for an obligated person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the obligated person, or if such jurisdiction has been assumed by leaving the existing governmental body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the obligated person.

(b) The State Treasurer shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material, in a timely manner not later than ten business days after the occurrence of the event:

1. Unless described in paragraph 5(a)(5), other notices or determinations by the Internal Revenue Service with respect to the tax status of the Bonds or other events affecting the tax status of the Bonds;

2. Modifications to rights of Bond holders;

3. Optional, unscheduled or contingent Bond calls;

4. Release, substitution, or sale of property securing repayment of the Bonds;

5. Non-payment related defaults;

6. The consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms; or

7. Appointment of a successor or additional trustee or the change of name of a trustee.

(c) The State Treasurer notes that Sections 5(a)(2), (3) and (4) and 5(b)(4) are not applicable to the Bonds.

(d) The State Treasurer shall give, or cause to be given, in a timely manner, notice of a failure to provide the annual financial information on or before the date specified in Section 3(a), as provided in Section 3(b).

(e) Whenever the State Treasurer obtains knowledge of the occurrence of a Listed Event described in Section 5(b), the State Treasurer shall determine if such event would be material under applicable federal securities laws.

(f) Any notice required to be given pursuant to subsection (a) or (b) above shall be filed with the MSRB in electronic format, accompanied by such identifying information as is prescribed by the MSRB. Notice of the Listed Event described in subsection (b)(3) need not be given under this subsection any earlier than the notice of the underlying event is given to Holders of affected Bonds pursuant to the Resolutions.

Section 6. Termination of Reporting Obligation. The State's obligations under Sections 3, 4 and 5 of this Disclosure Certificate shall terminate with respect to any Bonds upon the maturity, legal defeasance, prior redemption or acceleration of such Bonds.

Section 7. Dissemination Agent. The State Treasurer may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out the obligations under this Disclosure Certificate, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the State Treasurer pursuant to this Disclosure Certificate. If at any time there is not any other designated Dissemination Agent, the State Treasurer shall be the Dissemination Agent. The initial Dissemination Agent shall be the State Treasurer.

Section 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the State Treasurer may amend any provision of this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that the following conditions are satisfied:

(a) If the amendment or waiver relates to the provisions of Section 3(a), 4, 5(a), (b), (d) or (f), or 8(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the Bonds, or the type of business conducted;

(b) The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver either (i) is approved by the Holders of 60 percent of the Bonds outstanding or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Holders or Beneficial Owners of the Bonds. The State also may amend this Disclosure Certificate without approval by the Holders to the extent permitted by rule, order or other official pronouncement of the SEC.

In the event of any amendment or waiver of a provision of this Disclosure Certificate, the State Treasurer shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or, in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the State. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a Listed Event under Section 5(f), and (ii) the Annual

Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

Section 9. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the State Treasurer from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the State Treasurer chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the State Treasurer shall not have any obligation under this Disclosure Certificate to update such information or include it in any Annual Report or future notice of occurrence of a Listed Event.

Section 10. Default. In the event of a failure of the State or State Treasurer to comply with any provision of this Disclosure Certificate, any Holder or Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the State or State Treasurer to comply with its obligations under this Disclosure Certificate. The sole remedy under this Disclosure Certificate in the event of any failure of the State or State Treasurer to comply with this Disclosure Certificate shall be an action to compel performance.

Section 11. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the Holders and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity (except the right of the Dissemination Agent or any Holder or Beneficial Owner to enforce the provisions of this Disclosure Certificate on behalf of the Holders). This Disclosure Certificate is not intended to create any monetary rights on behalf of any person based upon the Rule.

Section 12. Partial Invalidity. If any one or more of the agreements or covenants or portions thereof required hereby to be performed by or on the part of the State Treasurer shall be contrary to law, then such agreement or agreements, such covenant or covenants or such portions thereof shall be null and void and shall be deemed separable from the remaining agreements and covenants or portions thereof and shall in no way affect the validity hereof, and the Holders of the Bonds shall retain all the benefits afforded to them hereunder. The State Treasurer hereby declares that he would have executed and delivered this Disclosure Certificate and each and every other article, section, paragraph, subdivision, sentence, clause and phrase hereof irrespective of the fact that any one or more articles, sections, paragraphs, subdivisions, sentences, clauses or phrases hereof or the application thereof to any person or circumstance may be held to be unconstitutional, unenforceable or invalid.

Section 13. Governing Law. The laws of the State shall govern this Disclosure Certificate, the interpretation thereof and any right or liability arising hereunder. Any action or proceeding to enforce or interpret any provision of this Disclosure Certificate shall be brought, commenced or prosecuted in any courts of the State located in Sacramento County, California.

IN WITNESS WHEREOF, the State Treasurer has executed this Disclosure Certificate as of the date first above written.

By: ____
Deputy Treasurer
For California State Treasurer John Chiang

CONTINUING DISCLOSURE EXHIBIT A

FORM OF NOTICE TO THE MUNICIPAL SECURITIES RULEMAKING BOARD OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer:	STATE OF CALIFORNIA
Name of Bond Issue:	STATE OF CALIFORNIA Various Purpose General Obligation Bonds Various Purpose General Obligation Refunding Bonds
Date of Issuance:	September ___, 2015

NOTICE IS HEREBY GIVEN that the Issuer has not provided an Annual Report with respect to the above-named Bonds as required by Section 4 of the Continuing Disclosure Certificate of the Issuer, dated the Date of Issuance. [The Issuer anticipates that the Annual Report will be filed by ___________________________.]

Dated:

STATE OF CALIFORNIA

By ___________[to be signed only if filed]________

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APPENDIX D

PROPOSED FORMS OF LEGAL OPINIONS

FORM OF FINAL OPINION OF BOND COUNSEL

[Closing Date]

$__________
STATE OF CALIFORNIA
GENERAL OBLIGATION BONDS

$_________	**$___________**
VARIOUS PURPOSE GENERAL OBLIGATION BONDS	**VARIOUS PURPOSE GENERAL OBLIGATION REFUNDING BONDS**

(Final Opinion)

The Honorable John Chiang
State Treasurer
Sacramento, California

We have acted as bond counsel to the State of California (the "State") in connection with the issuance by the State of (i) $___________ aggregate principal amount of State of California Various Purpose General Obligation Bonds (the "Construction Bonds") and (ii) $___________ aggregate principal amount of State of California Various Purpose General Obligation Refunding Bonds (the "Refunding Bonds," and together with the Construction Bonds, the "Bonds"). All the bond acts under which the Bonds are issued are identified in Schedule A hereto, which is incorporated by reference. The Bonds are authorized pursuant to the respective bond acts identified in Schedule A (collectively, the "Laws") and are issued pursuant to Part 3 of Division 4 of Title 2 of the California Government Code and to resolutions (the "Resolutions") adopted by the respective finance committees designated under the Laws.

In such connection, we have examined the Resolutions, the tax certificate of the State relating to the Bonds, dated the date hereof (the "Tax Certificate"), other certifications of officials of the State, and such other documents, opinions and matters to the extent deemed necessary to render the opinions set forth herein.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. Accordingly, this letter speaks only as of its date and is not intended to, and may not, be relied upon or otherwise used in connection with any such actions, events or matters. We have no obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies). We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents referred to in the second paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Resolutions and the Tax Certificate, including (without limitation) covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause interest on the Bonds to be included in gross income for federal income tax purposes.

We call attention to the fact that the rights and obligations under the Bonds, the Resolutions and the Tax Certificate and their enforceability may be subject to bankruptcy, insolvency, receivership, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases, and to the limitations on legal remedies against the State. We express no opinion with respect to any indemnification, contribution, liquidated damages, penalty (including any remedy deemed to constitute a penalty), right of set-off, choice of law, choice of forum, choice of venue, non-exclusivity of remedies, waiver or severability provisions contained in foregoing documents. Our services did not include financial or other non-legal advice. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Bonds and express no opinion with respect thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The State has lawful authority for the issuance of the Bonds, and the Bonds constitute valid and binding general obligations of the State payable in accordance with the Laws from the General Fund of the State. The full faith and credit of the State are pledged to the punctual payment of the principal of and interest on the Bonds as the principal and interest become due and payable.

2. Interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code"). Interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although we observe that it is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Interest on the Bonds is exempt from State personal income taxes. We express no opinion regarding any other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest on, the Bonds.

Very truly yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

Per

Schedule A

$___________
STATE OF CALIFORNIA
VARIOUS PURPOSE GENERAL OBLIGATION BONDS

Bond Act	Finance Committee	Name of Bonds (State of California)	Series Designation	Amount ($)

$___________
STATE OF CALIFORNIA
VARIOUS PURPOSE GENERAL OBLIGATION REFUNDING BONDS

Bond Act	Finance Committee	Name of Bonds (State of California)	Series Designation	Amount ($)

FORM OF OPINION OF THE ATTORNEY GENERAL

[Closing Date]

$__________
STATE OF CALIFORNIA
Various Purpose General Obligation Bonds

$__________
STATE OF CALIFORNIA
Various Purpose General Obligation Refunding Bonds

The Honorable John Chiang
State Treasurer
Sacramento, California

We have acted as counsel to the State of California (the "State") in connection with the issuance by the State of (i) $___________ aggregate principal amount of State of California Various Purpose General Obligation Bonds (the "Construction Bonds") and (ii) $___________ aggregate principal amount of State of California Various Purpose General Obligation Refunding Bonds (the "Refunding Bonds," and together with the Construction Bonds, the "Bonds"), all dated [Closing Date], and issued as ________ (___) separate series under _________ (___) bond acts, all identified in Schedule A hereto, which is incorporated by reference. The Bonds are authorized pursuant to the respective bond acts identified in Schedule A (collectively, the "Laws") and are issued pursuant to Chapter 4 of Part 3 of Division 4 of Title 2 of the California Government Code and to resolutions (the "Resolutions") adopted by the respective finance committees designated under the Laws.

In such connection, we have examined the record of proceedings submitted to us relative to the issuance of the Bonds, including the Resolutions, certifications of officials of the State, and such other documents and matters deemed necessary by us to render the opinions set forth herein, although in doing so, we have not undertaken to verify independently and have assumed the accuracy of the factual matters represented, warranted or certified therein.

The opinions expressed herein are based upon an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof and we disclaim any obligation to update this letter. We have neither undertaken to determine, nor to inform any person, whether any such actions are taken or omitted or events do occur or whether any other matters come to our attention after the date hereof. We have assumed the genuineness of all documents and signatures presented to us, the conformity to original documents and certificates of all documents and certificates submitted to us as certified or photostatic copies, and the authenticity of the originals of such latter documents and certificates. Furthermore, we have assumed compliance with the agreements and covenants contained in the Resolutions.

We call attention to the fact that the rights and obligations under the Bonds and the Resolutions and their enforceability may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases, and to the limitations contained in state law regarding legal remedies against the state. We express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum, choice of venue, severability or waiver provisions contained in the foregoing documents. We express no opinion as to whether interest on the Bonds is excluded from gross income for federal income tax purposes or exempt from State personal income taxes or as to any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement dated August ___, 2015, or other offering material relating to the Bonds and express no opinion with respect thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the opinion that the State has lawful authority for the issuance of the Bonds, and the Bonds constitute the valid and binding general obligations of the State payable in accordance with the Laws from the General Fund of the State. The full faith and credit of the State are pledged to the punctual payment of the principal of and interest on the Bonds, as the principal and interest become due and payable.

Sincerely,

Deputy Attorney General

For KAMALA D. HARRIS
Attorney General

Schedule A

$___________ STATE OF CALIFORNIA
VARIOUS PURPOSE GENERAL OBLIGATION BONDS

Bond Act	Finance Committee	Name of Bonds (State of California)	Series Designation	Amount ($)

$__________
STATE OF CALIFORNIA
VARIOUS PURPOSE GENERAL OBLIGATION REFUNDING BONDS

Bond Act	Finance Committee	Name of Bonds (State of California)	Series Designation	Amount ($)

APPENDIX E

LETTERS FROM CERTAIN UNDERWRITERS

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J.P.Morgan

August 13, 2015

Mr. Blake Fowler
Director, Public Finance Division
Office of the Treasurer of the State of California
915 Capitol Mall, Room 261
Sacramento, CA 95814

RE: State of California Various Purpose General Obligation Bonds, August 2015 (the "Bonds")

Dear Mr. Fowler:

J.P. Morgan Securities LLC ("JPMS"), one of the Underwriters of the Bonds, has entered into a negotiated dealer agreement (the "Dealer Agreement") with Charles Schwab & Co. ("CS&Co.") for the retail distribution of certain securities offerings at the original issue prices. Pursuant to the Dealer Agreement, CS&Co. may purchase Bonds from JPMS at the original issue price less a negotiated portion of the selling concession applicable to any Bonds that CS&Co. sells.

J.P. MORGAN SECURITIES LLC

Morgan Stanley

August 7, 2015

Mr. Blake Fowler
Director of Public Finance Division
Office of the Treasurer of the State of California
915 Capitol Mall, Room 261
Sacramento, CA 95814

RE: State of California Various Purpose General Obligation Bonds and Various Purpose General Obligation Refunding Bonds, August 2015 Sale

Dear Mr. Fowler:

Morgan Stanley & Co. LLC is providing the following language for inclusion in the Official Statement.

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

Morgan Stanley & Co. LLC

Loop Capital

12100 Wilshire Blvd., Suite 430
Los Angeles, CA 90025
T 310.442.1200 **F** 310.442.1208
Toll Free 888.294.8898
www.loopcapital.com

August 7, 2015

Mr. Blake Fowler
Director, Public Finance Division
Office of the Treasurer of the State of California
915 Capitol Mall, Room 110
Sacramento, CA 95814

Re: State of California Various Purpose General Obligation Bonds, August 2015 Sale (the "Bonds")

Dear Mr. Fowler:

Loop Capital Markets LLC is providing the following language for inclusion in the Official Statement.

Loop Capital Markets LLC, one of the Underwriters of the Bonds, has entered into a distribution agreement (the "Distribution Agreement") with Deutsche Bank Securities Inc. ("DBS") for the retail distribution of certain securities offerings at the original issue prices. Pursuant to the Distribution Agreement (if applicable to this transaction), DBS will purchase Bonds from Loop Capital Markets LLC at the original issue prices less a negotiated portion of the selling concession applicable to any Bonds that such firm sells.

Sincerely,

Loop Capital Markets LLC

ACADEMY SECURITIES

August 12, 2015

Mr. Blake Fowler, Director
Public Finance Division
Office of the Treasurer of the State of California
915 Capitol Mall, Room 261
Sacramento, CA 95814
Email: blake.fowler@treasurer.ca.gov

Re: California State Various Purpose General Obligation Bonds

Dear Sir:

Academy Securities, Inc., Co-Managing Underwriter of California State Various Purpose General Obligation Bonds, intends to enter into distribution agreements (the "Distribution Agreements") with W.H. Mell Associates, Inc., TD Ameritrade Inc., Ladenburg Thalmann & Co Inc., NBC Securities, Inc., Winslow Evans & Crocker, Commonwealth Equity Services, Ross, Sinclaire & Associates, Inc., Crews & Associates Inc., UnionBanc Investment Services LLC, World First Financial Services Inc., Intercoastal Capital Markets, Inc. for the retail distribution of certain municipal securities offerings, at the original issue prices. Pursuant to these Distribution Agreements (if applicable for this transaction), Academy Securities, Inc. may share a portion of its underwriting compensation with these firms.

ACADEMY SECURITIES, INC.

Backstrom McCarley Berry & Co., LLC

August 5, 2015

Mr. Blake Fowler
Director, Public Finance
California State Treasurer's Office
915 Capitol Mall, Room 110
Sacramento, California 95814

RE: State of California General Obligation Bonds September 2015 Sale
*Retail Distribution Agreements

Dear Mr. Fowler:

Backstrom McCarley Berry & Co., LLC ("BMcB"), one of the co-managers of the State of California Bonds September 2015 sale has entered into a Broker/Dealer Agreement with D.A. Davidson & Co., for the purpose of selling and distribution of certain securities offerings, including the State of California General Obligation Bonds, at the original issue price. Pursuant to our distribution agreement with D.A. Davidson & Co., they may purchase Bonds offered during the retail order period from BMcB at the original issue price less a negotiated portion of the selling concession applicable to any Bonds that such firm sells.

We very much appreciate the opportunity to serve the State on this transaction. We would be happy to discuss these agreements with you if you should have any questions.

Backstrom McCarley Berry & Co., LLC

Don Backstrom

By: Don Backstrom
Managing Director & Principal

Cc: Jamie Teves-Fuentes (jteves-fuentes@treasurer.ca.gov)
Kristie Fung (kfung@treasurers.ca.gov)

*D.A. Davidson & Co.
Peter Bouzane
213-244-9226
1 Wilshire, 624 South Grand Ave
Los Angeles, CA 90017
pbouzane2@bloomberg.net,

August 3, 2015

Mr. Blake Fowler
Director, Public Finance Division
Office of the Treasurer of the State of California
915 Capitol Mall, Room 261
Sacramento, CA 95814

RE: State of California
September 2015 General Obligation Bond Sale

Dear Mr. Fowler:

Blaylock Beal Van, LLC, is providing the following language for inclusion in the Official Statement.

Blaylock Beal Van, LLC ("Blaylock Beal Van" or "BBV") has entered into a distribution agreement (the "Agreement") with TD Ameritrade, Inc. ("TD") for the retail distribution of certain municipal securities offerings underwritten by or allocated to Blaylock Beal Van, including the Bonds. Under the Agreement, Blaylock Beal Van will share with TD a portion of the underwriting compensation paid to BBV.

Sincerely,

Blaylock Beal Van, LLC

August 4, 2015

Mr. Blake Fowler
Director of Public Finance
Office of the Treasurer of the State of California
915 Capitol Mall, Room 261
Sacramento, CA 95814

RE: State of California – General Obligation Bonds (the "Bonds")

Dear Mr. Fowler:

Citigroup Global Markets Inc. is providing the following language for inclusion in the Offering Statement.

Citigroup Global Markets Inc., an underwriter of the Bonds, has entered into a retail distribution agreement with UBS Financial Services Inc. ("UBSFS"). Under the distribution agreement, Citigroup Global Markets Inc. may distribute municipal securities to retail investors through the financial advisor network of UBSFS. As part of this arrangement, Citigroup Global Markets Inc. may compensate UBSFS for their selling efforts with respect to the Bonds.

Citigroup Global Markets Inc.

Jefferies LLC
Municipal Securities Group
980 Ninth Street, 16th Fl.
Sacramento, CA 95814
Jefferies.com

August 4, 2015

Mr. Blake Fowler
Director, Public Finance Division
Office of the Treasurer of the State of California
915 Capital Mall, Room 261
Sacramento, California 95814

Re: State of California Various Purpose General Obligation Bonds August 2015 (the "Bonds")

Dear Mr. Fowler:

Jefferies LLC ("Jefferies"), an underwriter of the Bonds, has entered into an agreement (the "Agreement") with E*TRADE Securities LLC ("E*TRADE") for the retail distribution of municipal securities. Pursuant to the Agreement, Jefferies will sell Bonds to E*TRADE and will share a portion of its selling concession compensation with E*TRADE.

Jefferies LLC

August 7, 2015

PiperJaffray.

Mr. Blake Fowler
Director of Public Finance
Office of the Treasurer of the State of California
Public Finance Division
915 Capital Mall, Room 261
Sacramento, CA 95814

RE: STATE OF CALIFORNIA SEPTEMBER 2015 GENERAL OBLIGATION BONDS

Dear Mr. Fowler:

Piper Jaffray & Co. is providing the following language for inclusion in the Official Statement.

Piper Jaffray & Co. and UnionBanc Investment Securities LLC ("UnionBanc") entered into an agreement (the "Agreement") which enables UnionBanc to distribute certain new issue municipal securities underwritten by or allocated to Piper Jaffray & Co., including the State of California September 2015 General Obligation Bonds (the "Bonds). Under the Agreement, Piper Jaffray & Co. will share with UnionBanc a portion of the fee or commission paid to Piper Jaffray.

Sincerely,

Piper Jaffray & Co.

cc: Jamie Teves-Fuentes, California State Treasurer's Office
Kristie Fung, State Treasurer's Office

Siebert Brandford Shank & Co., L.L.C.

August 3, 2015

Mr. Blake Fowler
Director, Public Finance Division
Office of the Treasurer of the State of California
915 Capitol Mall, Room 261
Sacramento, CA 95814

Re: State of California General Obligation Bonds, September 2015 (the "Bonds")

Dear Mr. Fowler:

Siebert Brandford Shank & Co., L.L.C. ("SBS") has entered into an agreement with Credit Suisse Securities (USA) for the retail distribution of certain securities offerings, at the original issue prices. Pursuant to said agreement, if applicable to the Bonds, Credit Suisse Securities (USA) will purchase Bonds at the original issue price less the selling concession with respect to any Bonds that Credit Suisse Securities (USA) sells. SBS will share a portion of its underwriting compensation with Credit Suisse Securities (USA).

Sincerely,

Siebert Brandford Shank & Co., L.L.C.

WELLS FARGO SECURITIES

July 31, 2015

Mr. Blake Fowler
Director, Public Finance Division
Office of the Treasurer of the State of California
915 Capitol Mall, Room 261
Sacramento, CA 95814

Re: September 2015 State of California Various Purpose General Obligation Bonds and General Obligation Refunding Bonds (the "Bonds")

Dear Mr. Fowler:

Wells Fargo Bank, National Association ("WFBNA"), one of the underwriters of the Bonds, has entered into an agreement (the "Distribution Agreement") with its affiliate, Wells Fargo Advisors, LLC ("WFA"), for the distribution of certain municipal securities offerings, including the Bonds. Pursuant to the Distribution Agreement, WFBNA will share a portion of its underwriting or remarketing agent compensation, as applicable, with respect to the Bonds with WFA. WFBNA also utilizes the distribution capabilities of its affiliate Wells Fargo Securities, LLC ("WFSLLC"), for the distribution of municipal securities offerings, including the Bonds. In connection with utilizing the distribution capabilities of WFSLLC, WFBNA pays a portion of WFSLLC's expenses based on its municipal securities transactions. WFBNA, WFSLLC, and WFA are each wholly-owned subsidiaries of Wells Fargo & Company.

Wells Fargo Securities is the trade name for certain securities-related capital markets and investment banking services of Wells Fargo & Company and its subsidiaries, including Wells Fargo Bank, National Association.

Wells Fargo Bank, National Association

A Service
Disabled
Veterans
Business
Enterprise

August 7, 2015

Mr. Blake Fowler
Director
Public Finance Division
Office of the Treasurer of the State of California
915 Capitol Mall, Room 110
Sacramento, CA 95814

Re: State of California: Various Purpose General Obligation Bonds (Fall 2015)

Dear Mr. Fowler:

Mischler Financial Group, Inc. ("Mischler"), a member of the Selling Group for the above referenced bonds (the "Bonds"), has entered into separate distribution agreements (each a "Distribution Agreement") with Higgins Capital Management, Inc ("Higgins") and Newbridge Securities Corporation ("Newbridge") for the retail distribution of certain securities offerings at the original issue prices. Pursuant to each Distribution Agreement, each of Higgins and Newbridge may purchase Bonds from Mischler at the original issue prices less a negotiated portion of the takedown applicable to any Bonds such firm sells.

Sincerely

Mischler Financial Group, Inc.

1111 Bayside Drive, Suite 100
Corona Del Mar, CA 92625
Tel (949) 720-0640
Tel (800) 820-0640
Fax (949) 720-0229
www.mischlerfinancial.com

THE WILLIAMS CAPITAL GROUP

August 10, 2015

Mr. Blake Fowler, Director of Public Finance
Office of the Treasurer of the State of California
Executive Office
915 Capitol Mall, Room 261
Sacramento, CA 95814

RE: Retail Agreement Letter: State of California September 2015 General Obligation Bond Sale

Dear Mr. Fowler:

The Williams Capital Group, L.P., a selling group member on State of California September 2015 General Obligation Bond Sale, has entered into a negotiated dealer agreement ("Dealer Agreement") with TD Ameritrade for the retail distribution of certain securities offerings at the original issue prices. Pursuant to the Dealer Agreement (if applicable to this transaction), TD Ameritrade may purchase bonds from Williams Capital at the original issue price less a negotiated portion of the selling concession applicable to any bonds that such firm sells.

The Williams Capital Group, L.P.

THE WILLIAMS CAPITAL GROUP, L.P.
650 Fifth Avenue, 9th Floor, New York, NY 10019 Telephone 212.830.4500 Facsimile 212.830.4545

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APPENDIX F

AUDITED BASIC FINANCIAL STATEMENTS OF THE STATE OF CALIFORNIA FOR THE YEAR ENDED JUNE 30, 2014

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State of California

Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2014

BETTY T. YEE

California State Controller's Office

STATE OF CALIFORNIA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended
June 30, 2014

Prepared by
The Office of the State Controller

BETTY T. YEE
California State Controller

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Introductory Section

BETTY T. YEE
California State Controller

BETTY T. YEE
California State Controller

March 26, 2015

To the Citizens, Governor, and Members of the Legislature of the State of California:

I am pleased to submit the State of California Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2014. This report meets the requirements of Government Code section 12460 for an annual report prepared strictly in accordance with accounting principles generally accepted in the United States and contains information to help readers gain a reasonable understanding of the State's financial activities.

For the first time in five years, the State's fiscal year ended with a positive net position of $7.3 billion for the primary government. Overall, revenues exceeded expenses by $9.7 billion. On a cash basis, the State also ended the fiscal year with a strong positive cash balance of $1.9 billion in the General Fund and $1.1 billion in the Special Fund for Economic Uncertainties to meet General Fund cash needs.

California experienced a firm rebound in economic activity and success in efforts to rein in government spending. The 2014-15 Budget, enacted on June 20, 2014, advances a multiyear plan that is balanced, pays down budgetary debt from past years, saves for a rainy day, and makes wise investments in education, the environment, public safety, infrastructure, and California's extensive safety net.

The preparation of this report would not have been possible without the skill, effort, and dedication of the entire staff of the State Controller's Office. I thank them and all government departments for their assistance in providing the data necessary to prepare this report. Credit is also due to the California State Auditor and her audit staff for their continued support for maintaining the highest standards of professionalism in the management of the State's finances.

The State Controller's Office will continue to ensure the proper accounting and reporting of the State's fiscal resources, offer fiscal guidance to local governments, and uncover fraud and abuse of taxpayer dollars.

Sincerely,

Original signed by:

BETTY T. YEE
California State Controller

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Report Overview

The State's management assumes responsibility for the accuracy, completeness, and fairness of information presented in the CAFR, including all disclosures, based upon a comprehensive framework of internal controls established for this purpose. The internal control structure is designed to provide reasonable, but not absolute, assurance that the financial statements are free of material misstatements. The objective of these controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the Legislature and Governor.

The California State Auditor has issued an unmodified opinion on the financial statements for the year ended June 30, 2014, in accordance with auditing standards generally accepted in the United States of America and Government Auditing Standards issued by the Comptroller General of the United States.

The State of California also is required to undergo an annual single audit in conformity with the provisions of the United States Office of Management and Budget's Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. This report is issued separately.

The Management's Discussion and Analysis (MD&A) immediately follows the independent auditor's report and contains an introduction, overview, and analysis of the financial statements. The MD&A also contains information regarding California's economy for the year ending June 30, 2014, and its economic performance as of January 31, 2015, for the 2014-15 fiscal year. The MD&A complements this transmittal letter and should be read in conjunction with it.

Profile of the State of California

The State of California was admitted to the Union on September 9, 1850. The State's population is estimated for 2014 to be nearly 39 million residents. The State's government is divided into three branches: Executive, Legislative, and Judicial. Executive power is vested in the Governor. Other members of the executive branch include the Lieutenant Governor, Attorney General, Secretary of State, State Treasurer, State Controller, Insurance Commissioner, and the State Superintendent of Public Instruction. All officers of the executive branch are elected to a four-year term. The Legislative branch of government is the State's law-making authority and is made up of two houses: the Senate and the Assembly. The Judicial branch is charged with interpreting the laws of the State of California. It provides settlement of disputes between parties in controversy, determines the guilt or innocence of those accused of violating laws, and protects the rights of Californians.

California's government includes control agencies that help to regulate internal governmental operations. The State Controller's Office, the State's independent fiscal watchdog, ensures that the State's budget is spent properly, offers fiscal guidance to local governments, and uncovers fraud and abuse of taxpayer dollars. The Department of Finance, part of the Executive branch of government, establishes fiscal policies to carry out the State's programs and serves as the Governor's chief fiscal policy advisor. The California State Auditor promotes the efficient and effective management of public funds through independent evaluations of state and local governments.

The State of California provides a wide range of services to its citizens, including social, health, and human services; kindergarten through 12th grades (K-12) and higher education; and business and transportation, consumer services, general government, and correctional programs. The State is also financially accountable for legally separate entities (component units) that provide post-secondary education programs, promote agricultural activities and financial assistance to small business, and finance coastal and inland urban waterfront restoration projects. These component units are separately reported in the State's financial statements. The State, through its related organizations (organizations for which the primary government is not financially accountable), provides services such as the operation of the statewide energy transmission grid; earthquake insurance for homeowners and renters; workers' compensation insurance; health insurance for individuals, families, and employees of small businesses; financing for pollution control facilities, and for acquiring, constructing, and equipping health facilities; and loans to students attending public and private nonprofit colleges and universities. The financial information of these institutions is not included in the State's financial statements.

The State Legislature approves an annual budget that contains estimates of revenues and expenditures for the ensuing fiscal year. This budget is the result of negotiations between the Governor and the Legislature. The State Controller's Office is statutorily responsible for controlling revenues due to the primary government and for expenditures of each appropriation contained in the budget. The State's annual budget is submitted no later than January 10 preceding the beginning of the fiscal year on July 1, and must be approved by the Legislature by June 15 each year. This annual budget serves as the foundation for the State's financial planning and control. Additional information on the budgetary basis of accounting can be found in Note 2, Budgetary and Legal Compliance, and in the Required Supplementary Information section of the CAFR that follows the Notes to the Financial Statements.

Overview of the State's Economy

The State of California is ranked first in population and third in land area in the U.S., and contains some of the most renowned resources and riches in the world. It is home to the most productive agricultural counties in the nation, with more than 80,000 farms and ranches contributing more than $44 billion annually to its agricultural industry. California has the largest and most diverse natural and cultural heritage of any state in the nation. In 2012, California's national parks generated nearly $1.5 billion in economic benefit to the State from visitor spending. California's Gross Domestic Product (GDP) makes up more than 13% of the United States' total GDP and ranks eighth in the top ten in the world economy. The five largest sectors of California's economy in terms of jobs are retail and wholesale trade; government; professional and business services; health care and social assistance; and food services and hotels.

Budget Outlook

2014-15 Fiscal Year

The 2014-15 Budget presents a multi-year balanced budget plan, maintains a $1.6 billion "rainy day" reserve, pays down budgetary debt, and shores up the teachers' pension system. Total resources available, including General Fund revenues and transfers, are estimated to be $109.4 billion, with estimated expenditures of $108 billion, resulting in a General Fund balance of $1.4 billion at the end of the 2014-15 fiscal year.

2015-16 Fiscal Year

The Governor released his proposed 2015-16 Budget on January 9, 2015, and sees maintaining a balanced budget as an ongoing challenge for the long term, requiring both fiscal restraint and prudence. The Budget proposes to end the fiscal year with $3.4 billion in total reserves, which includes $2.8 billion in the Budget Stabilization Account and $534 million in the General Fund's traditional budget reserve. The Budget commits over $60 billion for K-12 and higher education, and

an additional $1.2 billion for adult education, career technical education, workforce investment, and apprenticeships. $1.1 billion is appropriated for the State's flood protection, with an additional $115 million for drought response. The Budget commits an additional $1.2 billion to pay off loans and liabilities from Proposition 98; repays $1 billion in deferrals to schools and community colleges; makes the final payment on $15 billion in Economic Recovery Bonds; and repays $533 million in mandated reimbursements to local governments. The Budget begins to address $66 billion in deferred maintenance needs related to the State's infrastructure by appropriating $478 million for critical deferred maintenance at universities and community colleges, state parks, prisons, hospitals, and other state facilities.

Long-term Financial Planning

The following are some of the long-term financial planning initiatives that will impact the State's long-term financial goals.

- Proposition 98, approved by voters in November 1988, funds preschools, K-12 education, community colleges, and other state education programs. The Proposition 98 guarantee experienced volatility during the recent economic downturn, which led to significant and damaging budget reductions. On November 4, 2014, voters approved Proposition 2—the budget reserve and debt payment measure—which requires a deposit in the State Proposition 98 Rainy Day Fund under specified future conditions. The Governor's 2015-16 Budget provides $65.7 billion in total Proposition 98 funding, an increase of 4% from the revised 2014-15 Budget. This will increase the ongoing K-12 funding to $9,571 per student.

- The California Department of Transportation's upcoming five-year Infrastructure Plan estimates $26.6 billion, which includes investments in state transportation systems for maintenance, preservation, and safety; and State Transportation Improvement Program projects, which include expansion of capacity on highways and rail, both of which are vital to moving passengers and freight.

- Proposition 1, approved by voters in November 2014 as the Water Quality, Supply, and Infrastructure Improvement Act of 2014, provides $7.5 billion in general obligation bonds for water storage, water quality, flood protection, and watershed protection and restoration projects. The Bay Delta Conservation Plan (BDCP) estimates a total cost of $24.8 billion over a 50-year term to help secure California's water supply, by building new water delivery infrastructure and operating systems to improve the ecological health of the Delta. The BDCP includes conservation measures to restore or protect approximately 145,000 acres of habitat, provide more reliable water operations, and secure water supplies for 25 million Californians and the agricultural industry.

- The California High-Speed Rail Authority is responsible for the development and construction of a high-speed passenger train service between San Francisco and Los Angeles/Anaheim, with extensions to San Diego, Sacramento, and points in-between. In addition to 800 miles of rail line, the system will include up to 24 stations, 150 miles of bridges, viaducts, and elevated structures, 35 miles of tunnels, 610 grade separations, and 510,000 square yards of retaining walls. When fully completed, the service will be accessible to more than 90% of the State's residents. The Authority assumes that $25.4 billion from various funds, including federal, Cap and Trade, Proposition 1A bond, and other sources will be available to help accomplish its goals over the next five years.

- In 2014, the Governor signed a new funding plan to close a $74 billion shortfall in teachers' pensions over the next three decades. The 2015-16 Budget includes $1.4 billion to implement the second year of the plan.

- The Governor is proposing a plan to address unfunded state retiree health care benefits. The most recent valuation estimates an unfunded liability of $72 billion exists as of June 30, 2014. Paying down the retiree health care unfunded liability is a shared responsibility between employer and employees. The administration has indicated that, as collective bargaining contracts expire, it will negotiate, with each bargaining unit, a plan to jointly fund retiree health care benefits in the future.

Awards

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the State of California for its comprehensive annual financial report for the fiscal year ended June 30, 2013. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting

Presented to

State of California

For its Comprehensive Annual Financial Report for the Fiscal Year Ended

June 30, 2013

Jeffrey R. Esser

Executive Director/CEO

Principal Officials of the State of California

Executive Branch

Edmund G. Brown, Jr.
Governor

Gavin Newsom
Lieutenant Governor

Betty T. Yee
State Controller

Kamala D. Harris
Attorney General

John Chiang
State Treasurer

Alex Padilla
Secretary of State

Tom Torlakson
Superintendent of Public Instruction

Dave Jones
Insurance Commissioner

Board of Equalization
George Runner, Member, First District
Fiona Ma, Member, Second District
Jerome E. Horton, Member, Third District
Diane L. Harkey, Member, Fourth District

Legislative Branch

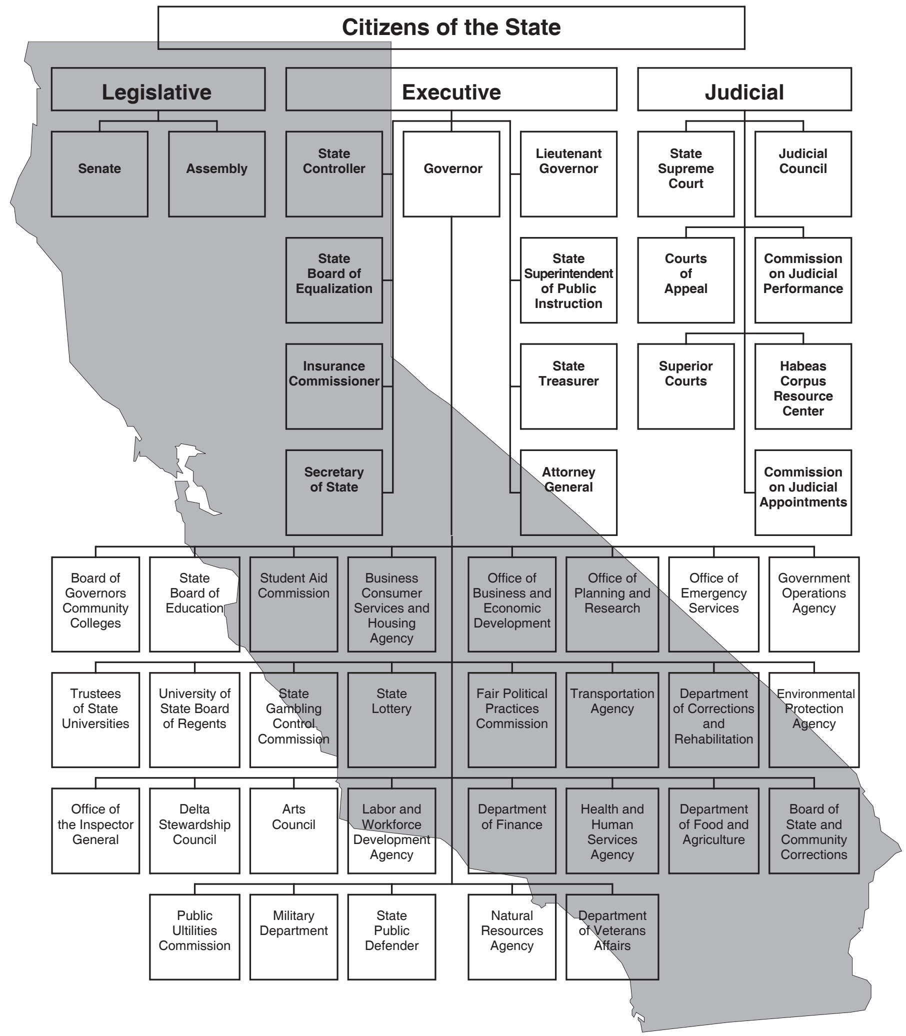
Kevin de León
President pro Tempore, Senate

Toni G. Atkins
Speaker of the Assembly

Judicial Branch

Tani Cantil-Sakauye
Chief Justice, State Supreme Court

Organization Chart of the State of California



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Financial Section

California State Auditor

Elaine M. Howle State Auditor
Doug Cordiner Chief Deputy

Independent Auditor's Report

THE GOVERNOR AND THE LEGISLATURE OF THE
STATE OF CALIFORNIA

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, 2014, 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 financial statements of the following:

Government-wide Financial Statements

- Certain enterprise funds that, in the aggregate, represent 79 percent of the assets and deferred outflows, and 30 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 93 percent of the revenues of the discretely presented component units.

Fund Financial Statements

- The Safe Drinking Water State Revolving fund, that represents 15 percent of the assets and deferred outflows, and 6 percent of the additions, revenues, and other financing sources of the Environmental and Natural Resources fund, a major governmental fund.
- The following major enterprise funds: Electric Power fund, Water Resources fund, State Lottery fund, and California State University fund.
- The Golden State Tobacco Securitization Corporation, the Public Building Construction, 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 58 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 solely 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 accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, 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, 2014, 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United State of America require that a discussion and analysis by management, schedule of funding progress, infrastructure information, budgetary comparison information, reconciliation of budgetary and GAAP-basis fund balances, and related notes be presented to supplement the basic financial statements. 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 our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other 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 basic 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 performed 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 have also issued our report dated March 19, 2015 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

March 19, 2015

Management's Discussion and Analysis

The following Management's Discussion and Analysis is required supplementary information 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, 2014. 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

California experienced a solid rebound in economic activity during the 2013-14 fiscal year and its financial health is clearly on the mend. The State's general revenues increased by $7.1 billion (6.0%) over the prior year. Expenses for the State's governmental activities also increased but were less than revenues received, resulting in a $7.8 billion increase in the governmental activities' net position and yielding the first positive net position since the 2008-09 fiscal year. Total revenues and transfers for the State's business-type activities also surpassed expenses by $1.9 billion in fiscal year 2013-14.

Net Position – The primary government's net position as of June 30, 2014, was $7.3 billion. The total net position is reduced by $96.1 billion for net investment in capital assets and by $29.8 billion for restricted net position, yielding a negative unrestricted net position of $118.6 billion. Restricted net position is dedicated for specified uses and is not available to fund current activities. More than half of the negative $118.6 billion consists of $66.7 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, own the capital assets that would offset this reduction.

Fund Highlights

Governmental Funds – As of June 30, 2014, the primary government's governmental funds reported a combined ending fund balance of $19.8 billion, an increase of $8.1 billion over the prior fiscal year, as restated. The unrestricted fund balance, comprised of committed, assigned, and unassigned balances, was negative $5.1 billion. The nonspendable and restricted fund balances were $156 million and $24.7 billion, respectively.

Proprietary Funds – As of June 30, 2014, the primary government's proprietary funds reported a combined ending net position of $5.9 billion, an increase of $1.7 billion over the prior fiscal year, as restated. The total net position is reduced by $2.3 billion for net investment in capital assets, expendable restrictions of $5.2 billion, and nonexpendable restrictions of $16 million, yielding a negative unrestricted net position of $1.6 billion.

Noncurrent Assets and Liabilities

As of June 30, 2014, the primary government's noncurrent assets totaled $145.4 billion, of which $125.1 billion is related to capital assets. State highway infrastructure assets of $65.3 billion represent the largest portion of the State's capital assets.

The primary government's noncurrent liabilities totaled $161.0 billion, which consists of $79.9 billion in general obligation bonds, $30.3 billion in revenue bonds, and $50.8 billion in remaining noncurrent liabilities. During the 2013-14 fiscal year, the primary government's noncurrent liabilities decreased by $3.3 billion (2.0%) from the prior fiscal year. This decrease was primarily the result of a $4.4 billion decrease in capital lease obligations, an increase of $3.2 billion in net other postemployment benefits obligations, a decrease of $1.3 billion in revenue bonds payable, and a $952 million decrease in loans payable.

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 financial and capital resources in a format in which assets and deferred outflows of resources equal liabilities and deferred inflows of resources, plus 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 general government, education (public kindergarten through 12th grade [K-12] schools and institutions of higher education), health and human services, resources, state and consumer services, business and transportation, correctional programs, 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 services to California State University students, 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 are blended component units of the State and are included in 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 California Public Employees' Retirement System and the California 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.

Most component units prepare their own separately issued financial statements. For information regarding obtaining the financial statements of the individual component units, refer to Note 1A, Reporting Entity.

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 public building construction, 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 position (governmental and business-type activities) increased by more than 409%, from a negative $2.4 billion, as restated at June 30, 2013, to a positive $7.3 billion a year later.

The primary government's $96.1 billion net 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 to pay off the liabilities.

Another $29.8 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, 2014, governmental activities reported an unrestricted net deficit of $116.9 billion and business-type activities showed an unrestricted net deficit of $1.7 billion.

A large portion of the unrestricted net deficit of governmental activities consists of $66.7 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 noncurrent liability that increases the State's unrestricted net position deficit. The State can expect continued deficits in the unrestricted net position of governmental activities as long as it 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, 2014 and 2013
(amounts in millions)

	Governmental Activities		Business-type Activities		Total	
	2014	**2013**	**2014**	**2013**	**2014**	**2013**
ASSETS						
Current and other assets	$ 70,798	$ 55,358	$ 24,345	$ 34,996	$ 95,143	$ 90,354
Capital assets	116,369	108,668	8,735	9,959	125,104	118,627
Total assets	**187,167**	**164,026**	**33,080**	**44,955**	**220,247**	**208,981**
DEFERRED OUTFLOWS OF RESOURCES	**986**	**911**	**242**	**480**	**1,228**	**1,391**
Total assets and deferred outflows of resources	**$ 188,153**	**$ 164,937**	**$ 33,322**	**$ 45,435**	**$ 221,475**	**$ 210,372**
LIABILITIES						
Noncurrent liabilities	$ 137,522	$ 128,052	$ 23,506	$ 36,282	$ 161,028	$ 164,334
Other liabilities	48,456	44,863	3,676	4,616	52,132	49,479
Total liabilities	**185,978**	**172,915**	**27,182**	**40,898**	**213,160**	**213,813**
DEFERRED INFLOWS OF RESOURCES	**171**	**159**	**823**	**471**	**994**	**630**
Total liabilities and deferred inflows of resources	**186,149**	**173,074**	**28,005**	**41,369**	**214,154**	**214,443**
NET POSITION						
Net investment in capital assets	94,001	84,931	2,066	1,719	96,067	86,650
Restricted	24,951	24,316	4,913	5,172	29,864	29,488
Unrestricted	(116,948)	(117,384)	(1,662)	(2,825)	(118,610)	(120,209)
Total net position (deficit)	**2,004**	**(8,137)**	**5,317**	**4,066**	**7,321**	**(4,071)**
Total liabilities, deferred inflows of resources, and net position	**$ 188,153**	**$ 164,937**	**$ 33,322**	**$ 45,435**	**$ 221,475**	**$ 210,372**

Changes in Net Position

The expenses of the primary government totaled $237.1 billion for the year ended June 30, 2014. Of this amount, $120.5 billion (50.8%) was funded with program revenues (charges for services or program-specific grants and contributions), leaving $116.6 billion to be funded with general revenues (mainly taxes). The primary government's general revenues of $126.3 billion exceeded net unfunded expenses by $9.7 billion, resulting in a positive net position for the first time in five years.

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, 2014 and 2013
(amounts in millions)

	Governmental Activities		Business-type Activities		Total	
	2014	**2013**	**2014**	**2013**	**2014**	**2013**
REVENUES						
Program Revenues:						
Charges for services	$ 22,274	$ 23,102	$ 25,284	$ 28,379	$ 47,558	$ 51,481
Operating grants and contributions	69,861	60,944	1,491	1,323	71,352	62,267
Capital grants and contributions	1,516	1,669	81	142	1,597	1,811
General Revenues:						
Taxes	125,812	118,645	—	—	125,812	118,645
Investment and interest	81	57	—	—	81	57
Miscellaneous	488	552	—	—	488	552
Total revenues	**220,032**	**204,969**	**26,856**	**29,844**	**246,888**	**234,813**
EXPENSES						
Program Expenses:						
General government	14,292	15,390	—	—	14,292	15,390
Education	54,720	50,586	—	—	54,720	50,586
Health and human services	105,037	94,070	—	—	105,037	94,070
Resources	5,855	5,671	—	—	5,855	5,671
State and consumer services	590	1,475	—	—	590	1,475
Business and transportation	13,427	12,836	—	—	13,427	12,836
Correctional programs	11,235	10,082	—	—	11,235	10,082
Interest on long-term debt	4,699	4,350	—	—	4,699	4,350
Electric Power	—	—	835	488	835	488
Water Resources	—	—	983	1,127	983	1,127
Public Buildings Construction	—	—	—	410	—	410
State Lottery	—	—	5,079	4,499	5,079	4,499
Unemployment Programs	—	—	13,673	17,599	13,673	17,599
California State University	—	—	6,545	6,197	6,545	6,197
Other enterprise programs	—	—	143	140	143	140
Total expenses	**209,855**	**194,460**	**27,258**	**30,460**	**237,113**	**224,920**
Excess (deficiency) before transfers	**10,177**	**10,509**	**(402)**	**(616)**	**9,775**	**9,893**
Transfers	(2,296)	(1,998)	2,296	1,998	—	—
Special item	(55)	—	(27)	—	(82)	—
Change in net position	7,826	8,511	1,867	1,382	9,693	9,893
Net position, beginning (restated)	**(5,822)**	**(16,648)**	**3,450**	**2,684**	**(2,372)**	**(13,964)**
Net position (deficits), ending	**$ 2,004**	**$ (8,137)**	**$ 5,317**	**$ 4,066**	**$ 7,321**	**$ (4,071)**

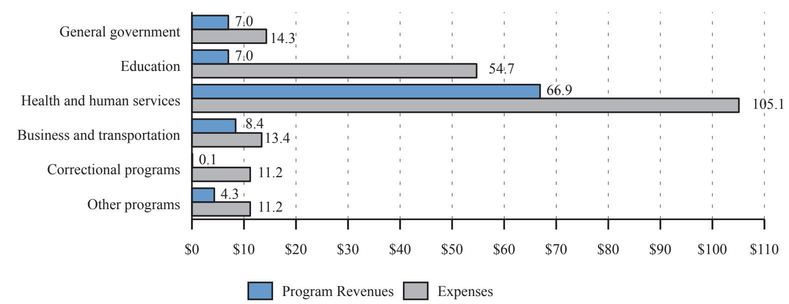
Governmental Activities

Governmental activities' expenses, transfers, and a special item totaled $212.2 billion. Program revenues totaling $93.7 billion, including $71.4 billion received in federal grants, funded 44.1% of expenses and transfers, leaving $118.5 billion to be funded with general revenues (mainly taxes). General revenues for governmental activities totaled $126.3 billion, and the governmental activities' total restated net deficit position of $5.8 billion at the end of fiscal year 2012-13 improved to a positive net position of $2.0 billion for the year ended June 30, 2014, an increase of $7.8 billion (134.4%).

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, 2014
(amounts in billions)



For the year ended June 30, 2014, total state tax revenues collected for governmental activities increased by $6.6 billion (5.8%) over the prior year. Personal income taxes increased by $1.3 billion (1.9%) as a result of California's stronger job market; the continued effect of Proposition 30, which increased personal income tax on earnings above $250,000; increased capital gains taxes from a strong stock market; and increasing home prices. Sales and use tax revenue increased by $2.6 billion (7.8%) due to the 0.25% increase in the State's sales tax effective on January 1, 2013, and increased consumer spending caused by increased consumer confidence in the improving economy and a reduction in the unemployment rate. Corporate taxes increased by $1.8 billion (24.9%) due to the State's ongoing economic recovery as well as the passage of Proposition 39, which required multistate corporations to calculate their California income tax liability on the percentage of their sales in California.

Overall expenses for governmental activities increased by $15.4 billion (7.9%) over the prior year. The largest increase of expenditures, $11.0 billion (11.7%), occurred in health and human services programs, the majority of which is attributable to the Department of Health Care Services, which administers the State's Medi-Cal program. The growth in spending for health and humans services was due to an increased Medi-Cal caseload, the increased utilization of health care services, the rising costs of those services, and the added costs associated with implementing the Patient Protection and Affordable Care Act—also known as federal health care reform. State and consumer services expenses decreased by $886 million (60.0%) largely due to the shift of certain state and consumer services expenses to general government as a result of the Governor's Reorganization Plan No. 2.

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, 2014
(as a percent)

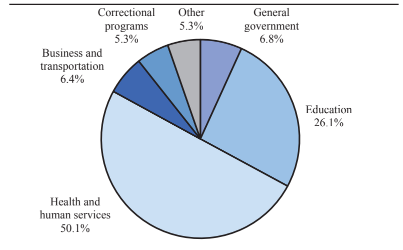
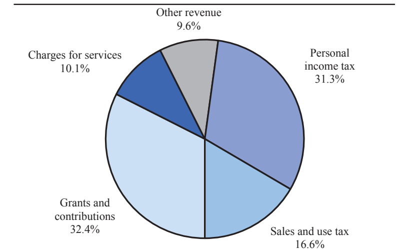


Chart 3

Revenues by Source
Year ended June 30, 2014
(as a percent)



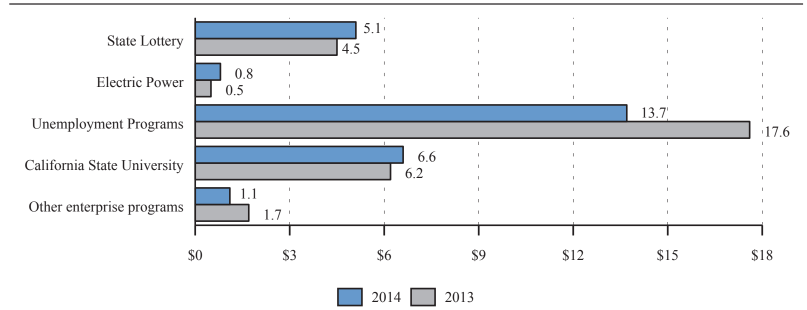
Business-type Activities

Business-type activities' expenses totaled $27.3 billion. Program revenues of $26.9 billion, primarily generated from charges for services, and $2.3 billion in transfers were sufficient to cover these expenses. Consequently, the business-type activities' total net position increased by $1.9 billion, or 54.1%, during the year ended June 30, 2014.

Chart 4 presents a two-year comparison of the expenses of the State's business-type activities.

Chart 4

Expenses – Business-type Activities – Two-year Comparison
Year ended June 30, 2014 and 2013
(amounts in billions)



Fund Financial Analysis

The State's governmental funds had an $8.1 billion increase in fund balance over the prior year's restated ending fund balance. Proprietary funds' net position increased by $1.9 billion for the fiscal year 2013-14, of which $1.5 billion was in the Unemployment Programs Fund, reducing its net position deficit to $2.7 billion.

Governmental Funds

The governmental funds' Balance Sheet reported $74.3 billion in assets, $54.6 billion in liabilities and deferred inflows of resources, and $19.8 billion in fund balance as of June 30, 2014. Total assets of governmental funds increased by 15.8%, while total liabilities increased by 5.1%, resulting in a total fund balance increase of $8.1 billion (69.2%) over the prior fiscal year.

Within the governmental funds' total fund balance, $156 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, $24.7 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, $3.0 billion is classified as committed for specific purposes and $19 million is classified as assigned for specific purposes. The unassigned balance of the governmental funds is a negative $8.1 billion.

The Statement of Revenues, Expenditures and Changes in Fund Balances of the governmental funds reported $219.9 billion in revenues, $218.3 billion in expenditures, and a net $6.6 billion in receipts from other financing sources. The ending fund balance of the governmental funds for the year ended June 30, 2014, was $19.8 billion, an $8.1 billion increase over the prior year's restated ending fund balance of $11.7 billion. The primary reason for the increase in fund balance was an increase in the year-end balances of cash reserves and receivables, primarily from tax revenue and federal grants.

Personal income taxes, which account for 54.6% of tax revenues and 31.3% of total governmental fund revenues, increased by $1.3 billion over the prior fiscal year. Sales and use taxes, which account for 28.9% of tax revenues and 16.6% of total governmental fund revenues, increased by $2.5 billion over the prior fiscal year. Corporation taxes, which account for 7.3% of tax revenues and 4.2% of total governmental fund revenues, increased by $2.0 billion over the prior fiscal year. Governmental fund expenditures increased by $16.2 billion over the prior fiscal year, primarily for education and health and human services. General obligation bonds and commercial paper of $5.1 billion were issued during the 2013-14 fiscal year, an increase of $1.0 billion over 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 $7.4 billion. The Federal Fund, the Transportation Fund, and the Environmental and Natural Resources Fund ended the fiscal year with fund balances of $212 million, $7.5 billion, and $7.6 billion, respectively. The nonmajor governmental funds ended the fiscal year with a total fund balance of $11.9 billion.

General Fund: As shown on the Balance Sheet, the General Fund (the State's main operating fund) ended the fiscal year with assets of $19.4 billion; liabilities and deferred inflows of resources of $26.9 billion; and nonspendable, restricted, and committed fund balances of $129 million, $394 million, and $125 million, respectively, leaving the General Fund with a negative unassigned fund balance of $8.1 billion. Total assets of the General Fund increased by $3.8 billion (24.1%) over the prior fiscal year, while the total liabilities and deferred inflows of resources of the General Fund decreased by $3.0 billion (10.2%). Total net fund deficit balance decreased by $7.6 billion (50.6%).

As shown on the Statement of Revenues, Expenditures, and Changes in Fund Balances, the General Fund had an excess of revenues over expenditures of $8.9 billion ($104.2 billion in revenues and $95.3 billion in expenditures). Approximately 95.1% of General Fund revenue ($99.1 billion) is derived from the State's largest three taxes—personal income taxes ($67.6 billion), sales and use taxes ($22.3 billion), and corporation taxes ($9.2 billion). As a result of fund classifications made to comply with governmental accounting standards, a total of $244 million in revenue, essentially all from unemployment programs, is included in the General Fund. These revenues are not considered General Fund revenues for any budgetary purposes or for the State's Budgetary/Legal Basis Annual Report.

During the 2013-14 fiscal year, total General Fund revenue increased by $4.8 billion (4.8%). The increase is a result of increases in corporation taxes of $2.0 billion (27.3%), sales and use taxes of $1.9 billion (9.1%), and personal income taxes of $1.4 billion (2.1%).

General Fund expenditures increased by $5.2 billion (5.8%). The largest increases were in education and health and human services expenditures, which were up $3.9 billion and $961 million, respectively. The General Fund's defict for the year ended June 30, 2014, was $7.4 billion, a decrease of $7.6 billion from the prior year's restated ending fund deficit of $15.1 billion.

Federal Fund: This fund reports federal grant revenues and related expenditures to support the grant programs. The largest of these programs is for health and human services, which accounted for $58.1 billion (82.4%) of the total $70.5 billion in Federal 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 $6.9 billion (9.8%). The Federal Fund's revenue increased by $8.8 billion, which was approximately the same amount of the increase in combined expenditures and transfers, resulting in only a $14 million fund balance increase from the prior year's ending fund balance of $198 million.

Transportation Fund: This fund accounts for fuel taxes, bond proceeds, and other revenues used primarily for highway and passenger rail maintenance and construction. The Transportation Fund's revenues increased by 7.0% and expenditures increased by 10.4%. Other financing sources provided net receipts of $2.2 billion. The Transportation Fund ended the fiscal year with a $7.5 billion fund balance, an increase of $236 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 $640 million. The Environmental and Natural Resources Fund ended the fiscal year with a $7.6 billion fund balance, a decrease of $187 million (2.4%) from the prior year.

Proprietary Funds

During the fiscal year, the Public Buildings Construction Fund was reclassified from an enterprise fund to an internal service fund, causing restated beginning net positions and large differences in lease receivables, revenue bonds payable, and related revenues and expenses for both fund types.

Enterprise Funds: The total net position of the enterprise funds at June 30, 2014, was $5.3 billion—$1.9 billion greater than the prior year's restated ending net position of $3.4 billion. The Unemployment Programs Fund had a decrease in its deficit net position of $1.5 billion, while the California State University Fund and nonmajor enterprise funds increased their net positions by $264 million and $111 million, respectively.

As shown on the Statement of Net Position of proprietary funds, total assets and deferred outflows of resources of the enterprise funds was $33.7 billion as of June 30, 2014. Of this amount, current assets totaled $11.2 billion, noncurrent assets totaled $22.3 billion, and deferred outflows of resources totaled $242 million. The total liabilities and deferred inflows of resources of the enterprise funds was $28.4 billion. The largest liabilities of the enterprise funds are $13.0 billion of revenue bonds payable and $7.6 billion of noncurrent loans payable. During the 2013-14 fiscal year, the State reduced the balance of the loans from the U.S Department of Labor that covered prior year deficits in the Unemployment Programs Fund, by $952 million, leaving a balance of $7.6 billion as of June 30, 2014.

Total net position consisted of four segments: net investment in capital assets of $2.1 billion, a nonexpendable restricted net position of $16 million, a restricted expendable net position of $4.9 billion, and an unrestricted net deficit of $1.7 billion.

As shown on the Statement of Revenues, Expenses, and Changes in Fund Net Position of proprietary funds, the enterprise funds ended the year with operating revenues of $24.2 billion, operating expenses of $24.7 billion, and net revenues from other transactions of $49 million. The largest sources of operating revenue were unemployment and disability insurance receipts of $15.2 billion in the Unemployment Programs Fund, and lottery ticket sales of $5.0 billion collected by the State Lottery Fund. The unemployment and disability insurance receipts in the Unemployment Programs Fund decreased by $3.4 billion from $18.6 billion in the prior fiscal year. These receipts came primarily from the federal government unemployment account to pay unemployment and disability benefits. The largest operating expenses were distributions of $13.4 billion to beneficiaries by the Unemployment Programs Fund, and personal services of $4.0 billion by the California State University Fund.

Internal Service Funds: The total net position of the internal service funds was $547 million as of June 30, 2014. The net position consists of three segments: net investment in capital assets of $245 million, restricted net position of $287 million, and unrestricted net position of $15 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 $6.1 billion. The pension and other employee benefit trust funds ended the fiscal year with net position of $510.2 billion. The State's only investment trust fund, the Local Agency Investment Fund, ended the fiscal year with net position of $21.1 billion. Agency funds act as clearing accounts and thus do not have a net position.

For the year ended June 30, 2014, the fiduciary funds' combined net position was $537.5 billion, a $67.9 billion increase over 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.

General Fund Budget Highlights

The original General Fund budget of $95.3 billion was increased by $4.1 billion. This increase is mainly comprised of funding augmentations for health and human services, education, and correctional programs. The increase in health and human services program funding is primarily due to the implementation of the Patient Protection and Affordable Care Act, as well as caseload increases and augmentations for program contingencies. The Proposition 98 minimum guarantee increased education funding as the result of increased General Fund revenue in the 2013-14 fiscal year. The augmentation of correctional programs was authorized by the California Community Corrections Perfomance Incentive Act for the purpose of providing

probation-failure-reduction incentive payments and high-performance grants. During fiscal year 2013-14, the General Fund actual budgetary basis expenditures were $98.0 billion, or $1.4 billion less than the final budgeted amount of $99.4 billion.

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, 2014
(amounts in millions)

	Original	Final	Increase
Budgeted amounts			
State and consumer services	$ 14	$ 14	$ —
Business and transportation	91	91	—
Resources	1,109	1,263	154
Health and human services	27,518	29,390	1,872
Correctional programs	8,610	9,349	739
Education	48,409	49,570	1,161
General government:			
Tax relief	422	425	3
Debt service	4,801	4,801	—
Other general government	4,328	4,478	150
Total	**$ 95,302**	**$ 99,381**	**$ 4,079**

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, 2014, amounted to $125.1 billion (net of accumulated depreciation/amortization). The State's capital assets include 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. Infrastructure assets are items that normally are immovable, such as roads and bridges, and can be preserved for a greater number of years than can most capital assets.

As of June 30, 2014, the State's capital assets increased $6.5 billion over the prior fiscal year. The majority of this increase occurred in buildings and other depreciable property, and construction in progress. Included in the capital assets increase is a $2.2 billion beginning balance restatement, primarily for understated state highway infrastructure construction in progress.

Note 7, Capital Assets, includes additional information on the State's capital assets.

Table 4 presents a summary of the primary government's capital assets for governmental and business-type activities.

Table 4

Capital Assets
June 30, 2014
(amounts in millions)

	Governmental Activities	Business-type Activities	Total
Land	$ 18,258	$ 222	$ 18,480
State highway infrastructure	65,269	—	65,269
Collections – nondepreciable	23	7	30
Buildings and other depreciable property	27,554	11,738	39,292
Intangible assets – amortizable	1,091	336	1,427
Less: accumulated depreciation/amortization	(12,150)	(4,581)	(16,731)
Construction in progress	14,858	764	15,622
Intangible assets – nonamortizable	1,466	249	1,715
Total	**$ 116,369**	**$ 8,735**	**$ 125,104**

Modified Approach for Infrastructure Assets

The State has elected to use the modified approach for capitalizing infrastructure assets of the state highway system (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 2013-14 fiscal year, the actual amount spent on preservation was 29.6% of the estimated budgeted amount needed to maintain the infrastructure assets at the established condition levels. Although the amount spent fell short of the budgeted amount, the assessed condition of the State's bridges and roadways is better than the established condition baselines. The State is responsible for maintaining 49,718 lane miles and 13,120 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

The State's largest long-term obligations are its bonded debt. At June 30, 2014, the primary government had total bonded debt outstanding of $115.9 billion. Of this amount, $84.0 billion (72.5%) represents general obligation bonds, which are backed by the full faith and credit of the State. Included in the $84.0 billion of general obligation bonds is $4.6 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 $4.0 billion and the long-term portion is $80.0 billion. The remaining $31.9 billion (27.5%) 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 $30.3 billion. During the fiscal year, the State issued $5.9 billion in new general obligation bonds for transportation projects, housing

and emergency shelters, stem cell research, children's hospitals, various water and flood control projects, and to refund previously outstanding general obligation bonds and commercial paper.

Table 5 presents a summary of all the primary government's long-term obligations for governmental and business-type activities.

Table 5

Long-term Obligations
June 30, 2014
(amounts in millions)

	Governmental Activities	Business-type Activities	Total
Government-wide noncurrent liabilities			
General obligation bonds	$ 79,287	$ 617	$ 79,904
Revenue bonds payable	18,270	12,070	30,340
Net other postemployment benefits obligation	18,617	628	19,245
Mandated cost claims payable	7,715	—	7,715
Loans payable	—	7,633	7,633
Compensated absences payable	3,751	183	3,934
Workers compensation benefits payable	3,291	3	3,294
Net pension obligation	3,238	—	3,238
Capital lease obligations	200	1,180	1,380
Certificates of participation and commercial paper	589	51	640
Other noncurrent liabilities	2,563	1,141	3,704
Total noncurrent liabilities	137,521	23,506	161,027
Current portion of long-term obligations	5,807	1,931	7,738
Total long-term obligations	**$ 143,328**	**$ 25,437**	**$ 168,765**

During the year ended June 30, 2014, the primary government's total long-term obligations increased by $2.9 billion over the prior year's restated balance. The prior year balance was restated primarily for the elimination of the governmental activities' capital lease obligation for lease-purchase agreements between the State Public Works Board, and governmental funds when the Public Buildings Construction Fund was reclassified from an enterprise fund (business-type activity) to an internal service fund (governmental activity). Net other postemployment benefits obligation increased the most ($3.2 billion) during the fiscal year, but other notable increases occurred in state-mandated cost claims payable ($1.1 billion) and general obligation bonds payable ($717 million). The net other postemployment benefits obligation increased because the State does not fully fund the annual cost of these benefits. The largest decreases were in revenue bonds payable ($1.4 billion) and loans payable to the U.S. Department of Labor for prior year shortfalls in the unemployment program ($952 million).

Note 10, Long-term Obligations, and Notes 11 through 16 include additional information on the State's long-term obligations.

In August 2013, Fitch raised the State's general obligation rating to "A" from "A-", citing the State's institutional changes to fiscal management and its ongoing economic and revenue recovery. In June 2014, Moody's raised the State's general obligation rating to "Aa3" from "A1", citing the State's rapidly improving financial position, high but declining debt metrics, adjusted net pension liability ratios that are close to the state median, strong liquidity, and robust employment growth. During the 2013-14 fiscal year, the rating from Standard and Poor's remained unchanged at "A".

Economic Condition and Future Budgets

The Economy for the Year Ending June 30, 2014

The U.S. economy completed its fifth year of recovery as California ended its fiscal year on June 30, 2014. National economic growth was somewhat erratic, with a difficult winter quarter followed by a solid spring rebound. The U.S. real gross domestic product (GDP) had a moderate 2.5% increase over the 12 months spanning the State's fiscal year.

California's income growth outperformed the nation in the 2013-14 fiscal year. The State's total personal income increased 3.5% during the fiscal year versus the 2.6% increase the nation experienced. As personal income grew, consumer spending increased, as substantiated by the 6.6% increase in auto registrations, for a total of 1.7 million registered vehicles for the 12 months ended June 30, 2014.

The State's real estate market showed signs of stabilizing at the end of the fiscal year compared to the market a year earlier, in which it was common for multiple offers to be made on a property and for it to be sold for more than its list price. As of June 2014, prices were significantly higher, 6.6% over the prior year, but sales were down by about 5%. Homebuilding in California picked up substantially, as permits issued during the fiscal year increased approximately 12%, to more than 82,000 units. Similarly, nonresidential building rebounded during the fiscal year; the value of nonresidential permits increased 44% to $23 billion. Retail stores, hotels, amusement parks, offices, and renovations contributed to the large increase.

California's job market both illustrated the State's recovery and contributed to it during the fiscal year. In June 2014, nonfarm employment surpassed its pre-recession high. With a 12-month gain of 347,500 jobs, employment was 2.3% higher than in June 2013. Job growth was widespread, with notable increases in construction, trade, leisure and hospitality, health care, and business and public services. Financial services, nondurable goods manufacturing, and the federal government were the only areas that experienced job losses. The improvement in the labor market was demonstrated by the drop in the State's unemployment rate from 9.0% in June 2013 to 7.4% in June 2014.

California ended the 2013-14 fiscal year with impressive economic gains. Consumers benefited from gains in jobs, personal income, home prices, and the stock market. California's economic and financial health was clearly on the mend even though the unemployment rate remained relatively high at the end of the fiscal year.

Economic Performance for the 2014-15 Fiscal Year as of January 31, 2015

California's economy continued to improve during the first several months of fiscal year 2014-15. Job gains, falling unemployment, increases in personal income, higher auto sales, and rising construction in both the residential and nonresidential markets demonstrate the continuing economic recovery.

Employment gains averaged 30,000 jobs per month during the first six months of the fiscal year, and as of December 2014, nonfarm employment increased 2.3% over its June 2014 level. Job increases were spread across a wide array of industries and sectors, and by December 2014, 11 of California's major metropolitan areas (representing 36% of the State's total labor market) had returned to their pre-recession job peaks. California's unemployment rate continued to fall during the first six months of the 2014-15 fiscal year; by December 2014, it had receded to 7.0% from 7.4% in June 2014.

The State began the first quarter of the new fiscal year with a solid gain of 3.9% in total personal income compared with the prior quarter. Job gains, personal income increases, and low interest rates, spurred a 9% increase in new auto registrations during the first four months of the fiscal year over the same period in the prior fiscal year.

The housing market returned to a more normal and sustainable pace as of December 2014. The stabilizing of home prices in recent months put home prices a moderate 3% above their prior year level as of December 2014. Although December's year-over-year rise in home sales was just 0.6%, it was the first increase in nearly a year and a half.

New construction activity continued to advance. On the housing front, building permits during the first six months of the 2014-15 fiscal year increased 5.7% over the total recorded during the first half of the prior fiscal year. The value of nonresidential permits gained 8.3%, with solid increases in industrial, office, retail, hotel, and building improvements.

California continues to make particular strides in technology, as evidenced by the advances of California businesses in web applications, biotech, mobile devices, alternative energy, and environmental science. During the first few months of the 2014-15 fiscal year, the State attracted $12.9 billion of venture capital, representing more than half of the national total.

As California moves into the remaining months of the 2014-15 fiscal year, it appears well positioned for further economic gains. Although challenged by an ongoing drought, economic and other instabilities abroad, and continuing budget pressures, the State's economy is clearly making progress on many fronts. The expected further growth in technology, health care, tourism, business and professional services, and construction all promise to deepen and broaden the State's economic expansion.

California's 2014-15 Budget

California's 2014-15 Budget Act was enacted on June 20, 2014. The Budget Act appropriated $156.3 billion: $108.0 billion from the General Fund, $44.3 billion from special funds, and $4.0 billion from bond funds. The General Fund's budgeted expenditures increased $7.3 billion (7.2%) over last year's General Fund budget and included a $1.6 billion supplemental payment to pay off the remaining balance of the State's prior deficit financing bonds, known as Economic Recovery bonds. The General Fund's available resources were projected to be $105.5 billion, after a projected $1.6 billion transfer to the Budget Stabilization Account (Rainy Day Fund). General Fund revenue comes predominantly from taxes, with personal income taxes expected to provide 65.6% of total revenue. California's major taxes (personal income, sales and use, and corporation taxes) are projected to supply approximately 96.2% of the General Fund's resources in the 2014-15 fiscal year.

The 2014-15 budget continued the Governor's multi-year financial plan for the State of California, and for the third consecutive year, it projected a surplus in the General Fund. The 2014-15 fiscal year is projected to end with $2.1 billion in total reserves—$1.6 billion in the Budget Stabilization Account and $449 million reserved for economic uncertainties. The 2014-15 budget made targeted augmentations in a few key areas while paying down several billion dollars of existing liabilities, including the Economic Recovery bonds mentioned above.

Budget-related legislation was enacted to erase the California State Teachers' Retirement System' (CalSTRS) $74 billion unfunded liability in 32 years by increasing contributions from the State, school and community college districts, and teachers. The State is responsible for approximately $20 billion of the unfunded liability. The 2014-15 budget provided $1.5 billion in state contributions to CalSTRS, of which $59 million will be used toward reducing the State's share of the unfunded liability.

The 2014-15 budget included an increase of $2.6 billion over the prior year revised estimate, to $60.9 billion, for the minimum annual funding guarantee for schools and community colleges (Proposition 98 funding). The budget also provided $5.2 billion to reduce the Proposition 98 funding deferrals accumulated in prior years, leaving a balance of $992 million by the end of the 2014-15 fiscal year. However, this balance may be fully eliminated if, in the May 2015 budget revision, the minimum guarantee for fiscal years 2013-14 and 2014-15 is higher than assumed in the 2014-15 budget package.

The spending plan for fiscal year 2014-15 includes General Fund money for health programs of $19.3 billion, which is an increase of almost $700 million, or 3.7%, over the 2013-14 funding level. This increase primarily addresses increased Medi-Cal program costs due to the implementation of the Patient Protection and Affordable Care Act, as well as increases in caseload and the need for health care services. It is estimated that approximately 825,000 additional people who were previously eligible for Medi-Cal, but who were unenrolled, will receive benefits during the 2014-15 fiscal year under the current 50-50 state-federal cost sharing arrangement.

General Fund revenues and expenditures tend to peak in different months, and the State typically experiences spending in excess of revenues during the first several months of the fiscal year. During the 2014-15 fiscal year, this gap has been significantly smaller than projected in the 2014-15 budget. As of December 1, 2014, revenues were $1.3 billion more than forecasted, while total disbursements were $1.3 billion below estimates. As a result, the General Fund's increase in temporary borrowing was $2.7 billion less than projected, leaving a balance of $18.5 billion in short-term borrowing—$15.7 billion of internal borrowing from other state funds and $2.8 billion from revenue anticipation notes issued in September 2014.

California's 2015-16 Budget

The Governor released his proposed 2015-16 budget on January 9, 2015; he sees maintaining a balanced budget as an ongoing challenge for the long term, requiring both fiscal restraint and prudence. The budget assumes the continued moderate expansion of the economy, and continues with the Governor's multi-year plan to build reserves and pay down outstanding debt. Proposition 2 was approved by voters in November 2014 and affects the budget for the first time in fiscal year 2015-16. Proposition 2 gives the State an opportunity to avoid budget shortfalls that are driven by ongoing spending commitments based on temporary spikes in revenues from capital gains. Under Proposition 2, spikes in capital gains will instead be used to save money for the next recession and to pay down the State's debts and unfunded liabilities. The budget proposes total reserves of $3.4 billion by the end of the 2015-16 fiscal year—$2.8 billion in the Budget Stabilization Account required under Proposition 2 and $534 million in the General Fund's reserve for economic uncertainties. In addition to the required reserve, Proposition 2 requires an equivalent amount be used to pay down existing debts. During the 2015-16 fiscal year, the Governor proposes to pay down the General Fund's loans from special funds and Proposition 98 obligations by a total of $1.2 billion.

The 2015-16 Governor's Budget projects that General Fund revenues and transfers will be $113.4 billion and expenditures will be $113.3 billion, with an estimated $1.5 billion year-end balance, which includes the $534 million reserve. In the proposed budget, the General Fund began fiscal year 2014-15 with a surplus balance of $5.1 billion; it is projected to begin fiscal year 2015-16 with a surplus of approximately $1.4 billion. Estimated General Fund revenues and transfers are 4.9% more than the revised 2014-15 estimate of $108.0 billion, while the 2014-15 expenditures are 1.4% greater than the revised 2014-15 estimate of $111.7 billion.

Personal income tax is projected to increase by $3.5 billion (4.9%) over the prior year revised estimate. This represents a major component of the $5.0 billion General Fund revenue increase. Sales and use taxes are also projected to increase by $1.7 billion (7.4%) and corporation tax by $0.6 billion (5.8%). The budget's projected increases in General Fund revenue trigger higher education spending through the Proposition 98 minimum

funding guarantees for both the 2014-15 and 2015-16 fiscal years. The Governor's budget includes $7.8 billion in Proposition 98 funding increases, with a large portion of new funding ($5.0 billion) dedicated to implementation of the Local Control Funding Formula (LCFF), a package of workforce education and training initiatives, and various community college augmentations. The Governor's budget package also provides $2.8 billion to significantly reduce the State's outstanding Proposition 98 obligations (including eliminating all remaining school and community college payment deferrals and reducing the backlog of education mandate claims).

The Governor's budget for fiscal year 2014-15 assumes increased spending for health and human services of $1.4 billion, or 4.7%, mainly within the Medi-Cal program. The increase will ensure continued implementation of federal health care reform, which will enable millions of Californians to obtain health care coverage. Numerous recent federal actions in the health and human services area have increased State costs or created substantial fiscal uncertainty. Therefore, assumptions made in the 2014-15 budget could ultimately turn out differently and result in either additional costs or budget savings. The 2014-15 proposed budget provides additional funding to resources and environmental protection programs for flood prevention, water projects, drought-related activities, and greenhouse-gas-emissions reduction. The budget also proposes a small one-time allocation to address some of the State's $66 billion infrastructure deferred maintenance backlog.

According to the Legislative Analyst's Office (LAO), California's nonpartisan fiscal and policy advisor, the Governor's plan is reasonable—dedicating most new ongoing funding to the State's high-priority program needs and most one-time funding to paying off outstanding obligations. The LAO indicates that there is a strong possibility that revenues for the 2014-15 fiscal year will be significantly above the Governor's projections, which will result in even more funding in fiscal year 2014-15 for schools and community colleges under the Proposition 98 minimum funding guarantee, and could result in higher ongoing payments to schools. As further evidence of the improvement in the State's finances in recent years, the Governor's cash flow projections assume that the State will not need to issue a revenue anticipation note (RAN) to meet cash flow needs during 2015-16. If the projections hold, fiscal year 2015-16 would be only the second year since the mid-1980s that the State has not issued a RAN. However, LAO cautions that this level of peak revenue will likely not last, and that the higher current-year revenue and resulting increase in ongoing school spending, present a potential challenge for the State's 2015-16 budget and beyond.

Future Changes in Pension Plan Reporting

The Governmental Accounting Standards Board (GASB) recently issued Statement No. 67, No. 68, and No. 71 amending accounting and financial reporting standards for defined benefit and defined contribution pension plans for employers and pension plan sponsors nationwide. The initial phase of the implementation was completed by the State's pension plan sponsors—the California Public Employees' Retirement System (CalPERS) and the California State Teachers' Retirement System (CalSTRS). Both CalPERS and CalSTRS prepared financial statements for the fiscal year ended June 30, 2014, in conformity with GASB Statement No. 67. The next phase of implementation requires additional actuarial and accounting information to be reported in the State of California's Comprehensive Annual Financial Report (CAFR) for the fiscal year ending June 30, 2015, in conformity with GASB Statements No. 68 and No. 71; this one-year lag is allowable in the new standards. Therefore, the disclosure in Note 24, Pension Trusts and the Schedule of Funding Progress included in the required supplementary information in this year's CAFR is largely the same as the previous years' information, but next year it will be significantly different.

The effect of the new standards' implementation is arguably the largest accounting and financial reporting change to state and local governments nationwide in over a decade. However, the economic and budgetary impact of the change is expected to be minimal. The State will be presenting new accounting information, note disclosures, and required supplementary information as a result of the implementation.

There are four major changes that will occur in the State's CAFR for the fiscal year ending June 30, 2015:

- The State's net pension liability (NPL) will be presented in the government-wide Statement of Net Position. The NPL consists of the fair value of the State's investments in CalPERS' pension plans, less current payables and the total pension liability attributable to the State's workforce for services rendered to the date of valuation. An additional liability will be reported for the State's obligations to CalSTRS' pension plans in accordance with the provisions of the California Education Code.

- The State's pension expense reported in the government-wide Statement of Activities will reflect the change in the pension obligation that occurred during the fiscal year. Pension expense will be comprised of the pensionable service cost of current employees, as adjusted for investment return and amortization of various prior gains and losses, as well as other demographic and plan changes.

- The notes to the financial statements related to pension trusts will be revised to include new required disclosures including information from the pension plans' actuarial valuations and from other sources. In most instances, the information will be from the previous year as recommended by the new standards.

- The required supplementary information related to pension plans will dramatically change. The Schedule of Funding Progress will be discontinued and the information required by the new standards will grow to include sets of ten-year schedules.

The accounting changes needed to implement GASB Statement No. 68 and No. 71 will require the restatement of the beginning net position in the government-wide financial statements as of July 1, 2014. The amount of this restatement is currently being calculated.

The State's timely and successful implementation of GASB's new pension plan standards is the result of an intensive and collaborative effort by officials of the State's pension plan sponsors (CalPERS and CalSTRS), the State Controller's Office, and the California State Auditor's Office.

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 through email to the State Controller's Office, Division of Accounting and Reporting at StateGovReports@sco.ca.gov. This report is also available on the State Controller's Office website at www.sco.ca.gov.

Basic Financial Statements

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Government-wide Financial Statements

Statement of Net Position

June 30, 2014
(amounts in thousands)

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
ASSETS				
Current assets:				
Cash and pooled investments	$ 26,565,130	$ 5,433,555	$ 31,998,685	$ 2,353,088
Amount on deposit with U.S. Treasury	—	25,215	25,215	—
Investments	634,223	2,530,307	3,164,530	5,222,524
Restricted assets:				
Cash and pooled investments	3,339,603	676,975	4,016,578	128,517
Investments	—	—	—	15,929
Due from other governments	—	20,182	20,182	—
Net investment in direct financing leases	100,829	11,442	112,271	—
Receivables (net)	16,404,305	1,970,482	18,374,787	3,787,272
Internal balances	(329,500)	329,500	—	—
Due from primary government	—	—	—	206,341
Due from other governments	16,372,910	285,990	16,658,900	97,342
Prepaid items	124,378	48,396	172,774	1,276
Inventories	76,700	15,813	92,513	194,615
Recoverable power costs (net)	—	156,000	156,000	—
Other current assets	98,740	5,304	104,044	255,168
Total current assets	63,387,318	11,509,161	74,896,479	12,262,072
Noncurrent assets:				
Restricted assets:				
Cash and pooled investments	402,394	711,814	1,114,208	26,725
Investments	—	372,388	372,388	14,286
Loans receivable	—	305,278	305,278	—
Investments	—	1,178,561	1,178,561	27,930,558
Net investment in direct financing leases	851,240	358,915	1,210,155	—
Receivables (net)	2,058,389	286,011	2,344,400	2,741,342
Loans receivable	4,076,416	3,879,070	7,955,486	4,067,009
Recoverable power costs (net)	—	4,490,000	4,490,000	—
Long-term prepaid charges	21,885	1,230,632	1,252,517	—
Capital assets:				
Land	18,258,395	222,138	18,480,533	1,002,521
State highway infrastructure	65,268,686	—	65,268,686	—
Collections – nondepreciable	22,630	7,711	30,341	390,678
Buildings and other depreciable property	27,553,863	11,738,198	39,292,061	43,499,890
Intangible assets – amortizable	1,090,970	336,051	1,427,021	835,971
Less: accumulated depreciation/amortization	(12,150,010)	(4,581,349)	(16,731,359)	(20,542,756)
Construction in progress	14,857,774	764,065	15,621,839	3,661,522
Intangible assets – nonamortizable	1,466,407	248,601	1,715,008	5,082
Other noncurrent assets	—	23,173	23,173	353,936
Total noncurrent assets	123,779,039	21,571,257	145,350,296	63,986,764
Total assets	**187,166,357**	**33,080,418**	**220,246,775**	**76,248,836**
DEFERRED OUTFLOWS OF RESOURCES	**986,477**	**242,167**	**1,228,644**	**3,737,238**
Total assets and deferred outflows of resources	**$ 188,152,834**	**$ 33,322,585**	**$ 221,475,419**	**$ 79,986,074**

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	$ 25,731,972	$ 313,160	$ 26,045,132	$ 1,838,598
Due to component units	206,341	—	206,341	—
Due to other governments	7,111,861	129,160	7,241,021	54,967
Revenues received in advance	1,395,296	322,669	1,717,965	1,127,716
Tax overpayments	4,872,567	—	4,872,567	—
Deposits	396,868	—	396,868	790,051
Contracts and notes payable	615	—	615	16,326
Unclaimed property liability	730,564	—	730,564	—
Interest payable	1,292,513	72,632	1,365,145	60,934
Securities lending obligations	—	—	—	1,269,083
Benefits payable	—	482,396	482,396	—
Current portion of long-term obligations	5,807,107	1,930,899	7,738,006	3,805,538
Other current liabilities	910,628	424,932	1,335,560	1,821,788
Total current liabilities	48,456,332	3,675,848	52,132,180	10,785,001
Noncurrent liabilities:				
Loans payable	—	7,633,391	7,633,391	—
Lottery prizes and annuities	—	683,180	683,180	—
Compensated absences payable	3,750,543	182,859	3,933,402	275,284
Workers compensation benefits payable	3,290,898	2,538	3,293,436	321,338
Certificates of participation, commercial paper, and other borrowings	589,575	51,106	640,681	20,255
Capital lease obligations	200,192	1,180,232	1,380,424	448,648
General obligation bonds payable	79,287,287	617,317	79,904,604	—
Revenue bonds payable	18,270,478	12,069,907	30,340,385	19,187,901
Mandated cost claims payable	7,715,179	—	7,715,179	—
Net other postemployment benefits obligation	18,616,859	628,422	19,245,281	8,580,247
Net pension obligation	3,237,785	—	3,237,785	7,725,075
Revenues received in advance	—	11,460	11,460	—
Other noncurrent liabilities	2,562,633	446,048	3,008,681	1,924,267
Total noncurrent liabilities	137,521,429	23,506,460	161,027,889	38,483,015
Total liabilities	**185,977,761**	**27,182,308**	**213,160,069**	**49,268,016**
DEFERRED INFLOWS OF RESOURCES	**170,802**	**822,886**	**993,688**	**7,110,123**
Total liabilities and deferred inflows of resources	**$ 186,148,563**	**$ 28,005,194**	**$ 214,153,757**	**$ 56,378,139**

(continued)

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

Statement of Net Position (continued)

June 30, 2014
(amounts in thousands)

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
NET POSITION				
Net investment in capital assets	$ 94,001,659	$ 2,065,550	$ 96,067,209	$ 12,682,963
Restricted:				
Nonexpendable – endowments	—	16,219	16,219	5,289,548
Expendable:				
Endowments and gifts	—	—	—	9,912,926
Business and transportation	10,350,504	6,683	10,357,187	—
Resources	4,946,088	569,826	5,515,914	—
Health and human services	3,762,680	146,192	3,908,872	—
Education	1,141,458	79,018	1,220,476	1,708,757
General government	3,946,835	251,141	4,197,976	—
Unemployment programs	—	3,800,470	3,800,470	—
State and consumer services	801,248	32,133	833,381	—
Correctional programs	1,927	11,851	13,778	—
Indenture	—	—	—	491,187
Statute	—	—	—	1,268,261
Other purposes	—	—	—	25,769
Total expendable	24,950,740	4,897,314	29,848,054	13,406,900
Unrestricted	(116,948,128)	(1,661,692)	(118,609,820)	(7,771,476)
Total net position	**2,004,271**	**5,317,391**	**7,321,662**	**23,607,935**
Total liabilities, deferred inflows of resources, and net position	**$ 188,152,834**	**$ 33,322,585**	**$ 221,475,419**	**$ 79,986,074**

(concluded)

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Statement of Activities

Year Ended June 30, 2014
(amounts in thousands)

		Program Revenues			Net (Expenses) Revenues and Changes in Net Position			
					Primary Government			
FUNCTIONS/PROGRAMS	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	Component Units
Primary government								
Governmental activities:								
General government	$ 14,292,179	$ 5,994,608	$ 1,011,594	$ —	$ (7,285,977)		$ (7,285,977)	
Education	54,719,677	67,165	6,943,619	—	(47,708,893)		(47,708,893)	
Health and human services	105,037,102	7,961,897	58,943,872	—	(38,131,333)		(38,131,333)	
Resources	5,854,685	3,403,524	261,832	—	(2,189,329)		(2,189,329)	
State and consumer services	589,715	586,055	5,358	—	1,698		1,698	
Business and transportation	13,427,229	4,247,258	2,606,718	1,515,890	(5,057,363)		(5,057,363)	
Correctional programs	11,234,705	13,645	88,137	—	(11,132,923)		(11,132,923)	
Interest on long-term debt	4,699,265	—	—	—	(4,699,265)		(4,699,265)	
Total governmental activities	209,854,557	22,274,152	69,861,130	1,515,890	(116,203,385)		(116,203,385)	
Business-type activities:								
Electric Power	835,000	835,000	—	—		$ —	—	
Water Resources	983,048	983,048	—	—		—	—	
State Lottery	5,078,935	5,077,976	—	—		(959)	(959)	
Unemployment Programs	13,673,403	15,167,258	—	—		1,493,855	1,493,855	
California State University	6,544,936	3,014,030	1,491,559	—		(2,039,347)	(2,039,347)	
High Technology Education	847	424	—	—		(423)	(423)	
State Water Pollution Control Revolving	5,072	62,985	—	80,903		138,816	138,816	
Housing Loan	57,206	65,247	—	—		8,041	8,041	
Other enterprise programs	79,641	77,671	—	—		(1,970)	(1,970)	
Total business-type activities	27,258,088	25,283,639	1,491,559	80,903		(401,987)	(401,987)	
Total primary government	**$ 237,112,645**	**$ 47,557,791**	**$ 71,352,689**	**$ 1,596,793**	**$ (116,203,385)**	**$ (401,987)**	**$ (116,605,372)**	
Component Units								
University of California	28,714,112	16,945,088	8,051,387	473,464				$ (3,244,173)
California Housing Finance Agency	235,164	38,783	53,462	—				(142,919)
Nonmajor component units	2,017,379	1,069,909	564,519	9,147				(373,804)
Total component units	**$ 30,966,655**	**$ 18,053,780**	**$ 8,669,368**	**$ 482,611**				**$ (3,760,896)**
General revenues:								
Personal income taxes					$ 68,793,292	$ —	$ 68,793,292	$ —
Sales and use taxes					36,477,724	—	36,477,724	—
Corporation taxes					9,102,128	—	9,102,128	—
Motor vehicle excise tax					5,777,167	—	5,777,167	—
Insurance taxes					3,359,043	—	3,359,043	—
Other taxes					2,302,231	—	2,302,231	—
Investment and interest					80,969	—	80,969	3,397,201
Escheat					487,937	—	487,937	—
Other					—	—	—	2,959,253
Transfers					(2,296,010)	2,296,010	—	—
Special item - Loss on early extinguishment of debt					(54,537)	(26,913)	(81,450)	—
Total general revenues and transfers					**124,029,944**	**2,269,097**	**126,299,041**	**6,356,454**
Change in net position					7,826,559	1,867,110	9,693,669	2,595,558
Net position (deficit) - beginning, restated					**(5,822,288)**	**3,450,281**	**(2,372,007)**	**21,012,377**
Net position – ending					**$ 2,004,271**	**$ 5,317,391**	**$ 7,321,662**	**$ 23,607,935**

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

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

Fund Financial Statements

Balance Sheet

Governmental Funds

June 30, 2014
(amounts in thousands)

	General	Federal	Transportation	Environmental and Natural Resources	Nonmajor Governmental	Total
ASSETS						
Cash and pooled investments	$ 4,246,074	$ 458,076	$ 3,567,889	$ 5,709,974	$ 11,588,042	$ 25,570,055
Investments	—	—	—	—	634,223	634,223
Receivables (net)	13,165,951	12,520	1,129,154	523,853	3,456,906	18,288,384
Due from other funds	1,510,895	—	970,675	48,240	1,206,195	3,736,005
Due from other governments	305,388	15,569,689	4,647	60,380	411,764	16,351,868
Interfund receivables	49,234	—	3,362,281	829,227	1,332,720	5,573,462
Loans receivable	126,121	201,804	—	1,113,482	2,635,009	4,076,416
Other assets	11,816	—	56,443	—	30,481	98,740
Total assets	**$ 19,415,479**	**$ 16,242,089**	**$ 9,091,089**	**$ 8,285,156**	**$ 21,295,340**	**$ 74,329,153**
LIABILITIES						
Accounts payable	$ 1,358,333	$ 808,321	$ 421,430	$ 358,736	$ 934,782	$ 3,881,602
Due to other funds	9,273,689	12,837,772	120,638	47,238	2,765,819	25,045,156
Due to component units	206,341	—	—	—	—	206,341
Due to other governments	1,501,160	2,250,533	359,446	30,013	3,514,917	7,656,069
Interfund payables	6,123,537	—	2,316	25,000	8,584	6,159,437
Revenues received in advance	718,477	101,103	19,810	147,753	93,131	1,080,274
Tax overpayments	4,872,567	—	—	—	—	4,872,567
Deposits	1,683	—	2,243	349	392,164	396,439
Interest payable	—	2,583	—	—	113,669	116,252
Unclaimed property liability	730,564	—	—	—	—	730,564
General obligation bonds payable	—	—	—	—	1,164,630	1,164,630
Other liabilities	573,453	18,136	522,340	6,270	140,394	1,260,593
Total liabilities	**25,359,804**	**16,018,448**	**1,448,223**	**615,359**	**9,128,090**	**52,569,924**
DEFERRED INFLOWS OF RESOURCES	**1,500,271**	**12,067**	**176,642**	**39,243**	**265,790**	**1,994,013**
Total liabilities and deferred inflows of resources	**26,860,075**	**16,030,515**	**1,624,865**	**654,602**	**9,393,880**	**54,563,937**
FUND BALANCES						
Nonspendable	128,609	—	—	—	27,260	155,869
Restricted	394,246	211,574	7,398,858	6,321,107	10,337,554	24,663,339
Committed	125,120	—	67,366	1,321,111	1,526,270	3,039,867
Assigned	—	—	—	—	18,857	18,857
Unassigned	(8,092,571)	—	—	(11,664)	(8,481)	(8,112,716)
Total fund balances (deficit)	**(7,444,596)**	**211,574**	**7,466,224**	**7,630,554**	**11,901,460**	**19,765,216**
Total liabilites, deferred inflows of resources, and fund balances	**$ 19,415,479**	**$ 16,242,089**	**$ 9,091,089**	**$ 8,285,156**	**$ 21,295,340**	**$ 74,329,153**

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

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

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position

(amounts in thousands)

Total fund balances – governmental funds		**$ 19,765,216**
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	18,256,083	
State highway infrastructure	65,268,686	
Collections – nondepreciable	22,630	
Buildings and other depreciable property	26,893,376	
Intangible assets – amortizable	1,027,753	
Less: accumulated depreciation/amortization	(11,604,161)	
Construction in progress	13,916,388	
Intangible assets – nonamortizable	1,375,240	
		115,155,995
• State revenues that are earned and measurable, but not available within 12 months of the end of the reporting period, are reported as deferred inflows of resources in the funds.		1,994,013
• Internal service funds are used by management to charge the costs of certain activities, such as building construction, 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, excluding amounts for activity between the internal service funds and governmental funds.		(5,483,510)
• Bond premiums/discounts and prepaid insurance charges are amortized over the life of the bonds and are included in the governmental activities in the Statement of Net Position.		(3,521,677)
• Deferred inflows and outflows of resources resulting from bond refunding gains and losses, respectively, are amortized over the life of the bonds and are not reported in the funds.		761,882
• General obligation bonds and related accrued interest totaling $80,162,120, revenue bonds totaling $7,065,437, and certificates of participation and commercial paper totaling $598,094 are not due and payable in the current period and are not reported in the funds.		(87,825,651)
• The following liabilities are not due and payable in the current period and are not reported in the funds:		
Compensated absences	(3,588,310)	
Capital leases	(260,088)	
Net other postemployment benefits obligation	(18,172,547)	
Mandated costs	(7,715,179)	
Workers' compensation	(3,247,861)	
Proposition 98 funding guarantee	(1,519,468)	
Net pension obligation	(3,237,785)	
Pollution remediation obligations	(1,081,966)	
Other noncurrent liabilities	(18,793)	
		(38,841,997)
Net position of governmental activities		**$ 2,004,271**

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

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Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Funds

Year Ended June 30, 2014

(amounts in thousands)

	General	Federal	Transportation	Environmental and Natural Resources	Nonmajor Governmental	Total
REVENUES						
Personal income taxes	$ 67,584,256	$ —	$ —	$ —	$ 1,187,411	$ 68,771,667
Sales and use taxes	22,287,696	—	638,691	—	13,482,924	36,409,311
Corporation taxes	9,242,454	—	—	—	—	9,242,454
Motor vehicle excise taxes	—	—	5,777,167	—	—	5,777,167
Insurance taxes	2,372,326	—	—	—	986,717	3,359,043
Other taxes	720,206	—	5,755	135,662	1,435,402	2,297,025
Intergovernmental	—	71,364,926	—	—	1,635,674	73,000,600
Licenses and permits	9,278	—	4,050,999	367,484	2,529,356	6,957,117
Charges for services	271,117	—	123,437	116,427	258,321	769,302
Fees	12,015	—	18,686	2,282,398	6,306,159	8,619,258
Penalties	226,493	26	39,261	56,252	816,186	1,138,218
Investment and interest	22,578	—	10,433	48,219	56,524	137,754
Escheat	487,869	—	2	—	1,074	488,945
Other	945,837	—	69,078	658,946	1,229,474	2,903,335
Total revenues	**104,182,125**	**71,364,952**	**10,733,509**	**3,665,388**	**29,925,222**	**219,871,196**
EXPENDITURES						
Current:						
General government	4,209,653	1,051,312	199,058	97,949	9,220,242	14,778,214
Education	45,443,261	6,931,926	2,222	3,194	928,833	53,309,436
Health and human services	29,126,074	58,139,464	2,620	153,680	17,359,656	104,781,494
Resources	1,144,226	259,857	244,712	3,625,155	234,910	5,508,860
State and consumer services	13,494	5,358	101,221	62,587	438,377	621,037
Business and transportation	6,735	3,968,256	11,462,522	8,329	275,690	15,721,532
Correctional programs	8,958,251	88,137	—	—	1,348,846	10,395,234
Capital outlay	1,486,204	—	—	253,153	169,653	1,909,010
Debt service:						
Bond and commercial paper retirement	1,995,536	74,400	712,871	280,502	3,939,632	7,002,941
Interest and fiscal charges	2,953,651	9,889	4,303	8,436	1,344,761	4,321,040
Total expenditures	**95,337,085**	**70,528,599**	**12,729,529**	**4,492,985**	**35,260,600**	**218,348,798**
Excess (deficiency) of revenues over (under) expenditures	8,845,040	836,353	(1,996,020)	(827,597)	(5,335,378)	1,522,398
OTHER FINANCING SOURCES (USES)						
General obligation bonds and commercial paper issued	—	—	3,211,565	182,365	1,688,375	5,082,305
Refunding debt issued	—	—	95,830	351,155	1,630,345	2,077,330
Payment to refund long-term debt	—	—	—	(154,651)	(173,373)	(328,024)
Premium on bonds issued	199,162	—	83,282	43,970	178,612	505,026
Capital leases	1,486,204	—	—	—	—	1,486,204
Transfers in	996,459	—	25	240,099	2,804,667	4,041,250
Transfers out	(3,915,547)	(822,732)	(1,159,155)	(22,663)	(383,950)	(6,304,047)
Total other financing sources (uses)	**(1,233,722)**	**(822,732)**	**2,231,547**	**640,275**	**5,744,676**	**6,560,044**
Net change in fund balances	7,611,318	13,621	235,527	(187,322)	409,298	8,082,442
Fund balances (deficit) – beginning	**(15,055,914)** *	**197,953**	**7,230,697**	**7,817,876**	**11,492,162** *	**11,682,774**
Fund balances (deficit) – ending	**$ (7,444,596)**	**$ 211,574**	**$ 7,466,224**	**$ 7,630,554**	**$ 11,901,460**	**$ 19,765,216**

* Restated

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

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

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		**$ 8,082,442**
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	(666,151)	
Disposal of assets	(1,797,155)	
Purchase of assets	5,739,067	
		3,275,761
• Some revenues in the Statement of Activities do not provide current financial resources, and therefore are unavailable in governmental funds.		95,078
• 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, excluding amounts for activity between the internal service funds and governmental funds.		(124,281)
• 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	(304,472)	
Revenue bonds	94,211	
Certificates of participation and commercial paper	(59,568)	
		(269,829)
• 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	368,404	
Capital leases	(23,783)	
Net other postemployment benefits obligation	(2,978,601)	
Mandated costs	(1,018,589)	
Workers' compensation	(188,809)	
Proposition 98 funding guarantee	394,596	
Net pension obligation	40,990	
Pollution remediation obligations	(72,750)	
Other noncurrent liabilities	245,930	
		(3,232,612)
Change in net position of governmental activities		**$ 7,826,559**

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

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Statement of Net Position

Proprietary Funds

June 30, 2014
(amounts in thousands)

	Business-type Activities – Enterprise Funds							Governmental Activities
	Electric Power	**Water Resources**	**State Lottery**	**Unemployment Programs**	**California State University**	**Nonmajor Enterprise**	**Total**	**Internal Service Funds**
ASSETS								
Current assets:								
Cash and pooled investments	$ —	$ 466,978	$ 316,261	$ 3,540,926	$ 445,974	$ 663,416	$ 5,433,555	$ 995,075
Amount on deposit with U.S. Treasury	—	—	—	25,215	—	—	25,215	—
Investments	—	—	116,629	—	2,413,678	—	2,530,307	—
Restricted assets:								
Cash and pooled investments	651,000	—	—	—	—	25,975	676,975	3,339,603
Due from other governments	—	—	—	—	—	20,182	20,182	—
Net investment in direct financing leases	—	—	—	—	11,442	—	11,442	406,075
Receivables (net)	—	35,068	404,239	1,307,800	191,054	32,321	1,970,482	109,934
Due from other funds	3,000	1,129	295	38,516	1,105	672	44,717	441,922
Due from other governments	—	39,429	—	40,063	—	206,498	285,990	21,042
Prepaid items	—	—	—	5,223	43,146	27	48,396	124,378
Inventories	—	5,203	7,486	—	—	3,124	15,813	76,700
Recoverable power costs (net)	156,000	—	—	—	—	—	156,000	—
Other current assets	—	—	5,304	—	—	—	5,304	—
Total current assets	810,000	547,807	850,214	4,957,743	3,106,399	952,215	11,224,378	5,514,729
Noncurrent assets:								
Restricted assets:								
Cash and pooled investments	629,000	82,728	—	—	86	—	711,814	402,394
Investments	300,000	72,388	—	—	—	—	372,388	—
Loans receivable	—	—	—	—	—	305,278	305,278	—
Investments	—	—	796,206	—	357,153	25,202	1,178,561	—
Net investment in direct financing leases	—	—	—	—	358,915	—	358,915	6,576,903
Receivables (net)	—	—	—	32,109	253,902	—	286,011	—
Interfund receivables	—	91,517	—	611,690	—	5,600	708,807	15,774
Loans receivable	—	15,232	—	—	88,251	3,775,587	3,879,070	—
Recoverable power costs (net)	4,490,000	—	—	—	—	—	4,490,000	—
Long-term prepaid charges	—	1,214,450	16,182	—	—	—	1,230,632	8,329
Capital assets:								
Land	—	137,033	6,469	—	77,364	1,272	222,138	2,312
Collections – nondepreciable	—	—	—	—	7,711	—	7,711	—
Buildings and other depreciable property	—	4,736,960	157,283	20,103	6,805,714	18,138	11,738,198	660,487
Intangible assets – amortizable	—	36,796	—	166,966	130,789	1,500	336,051	63,217
Less: accumulated depreciation/amortization	—	(1,994,695)	(68,421)	(16,476)	(2,484,444)	(17,313)	(4,581,349)	(545,849)
Construction in progress	—	402,520	—	—	361,545	—	764,065	941,386
Intangible assets – non-amortizable	—	151,047	—	86,302	11,030	222	248,601	91,167
Other noncurrent assets	—	—	—	—	17,587	5,586	23,173	—
Total noncurrent assets	5,419,000	4,945,976	907,719	900,694	5,985,603	4,121,072	22,280,064	8,216,120
Total assets	**6,229,000**	**5,493,783**	**1,757,933**	**5,858,437**	**9,092,002**	**5,073,287**	**33,504,442**	**13,730,849**
DEFERRED OUTFLOWS OF RESOURCES	**80,000**	**116,741**	**—**	**—**	**45,426**	**—**	**242,167**	**118,169**
Total assets and deferred outflows of resources	**$ 6,309,000**	**$ 5,610,524**	**$ 1,757,933**	**$ 5,858,437**	**$ 9,137,428**	**$ 5,073,287**	**$ 33,746,609**	**$ 13,849,018**

(continued)

Statement of Net Position (continued)

Proprietary Funds

June 30, 2014
(amounts in thousands)

	Electric Power	Water Resources	Business-type Activities – Enterprise Funds: State Lottery	Unemployment Programs	California State University	Nonmajor Enterprise	Total	Governmental Activities: Internal Service Funds
LIABILITIES								
Current liabilities:								
Accounts payable	$ 6,000	$ 78,158	$ 52,691	$ 19	$ 173,638	$ 2,637	$ 313,143	$ 503,197
Due to other funds	—	47,681	314,912	59,896	—	1,552	424,041	100,637
Due to other governments	—	85,725	—	43,428	—	7	129,160	879
Revenues received in advance	—	—	2,979	63,017	256,641	32	322,669	315,022
Deposits	—	—	—	—	—	—	—	429
Contracts and notes payable	—	—	—	—	—	—	—	15,202
Interest payable	48,000	13,188	—	—	—	11,444	72,632	118,944
Benefits payable	—	—	—	482,396	—	—	482,396	—
Current portion of long-term obligations	694,000	191,637	559,401	—	459,605	26,256	1,930,899	504,843
Other current liabilities	—	—	9	53,247	371,550	126	424,932	105,562
Total current liabilities	748,000	416,389	929,992	702,003	1,261,434	42,054	4,099,872	1,664,715
Noncurrent liabilities:								
Interfund payables	—	—	—	—	—	—	—	138,606
Loans payable	—	—	—	7,633,391	—	—	7,633,391	—
Lottery prizes and annuities	—	—	683,180	—	—	—	683,180	—
Compensated absences payable	384	29,765	—	51,428	98,543	2,739	182,859	166,723
Workers' compensation benefits payable	—	—	2,538	—	—	—	2,538	43,037
Certificates of participation, commercial paper, and other borrowings	—	36,136	—	—	14,970	—	51,106	—
Capital lease obligations	—	—	—	—	1,180,232	—	1,180,232	—
General obligation bonds payable	—	184,960	—	—	—	432,357	617,317	—
Revenue bonds payable	5,555,000	2,532,234	—	—	3,567,026	415,647	12,069,907	10,822,897
Net other postemployment benefits obligation	5,616	176,769	41,114	129,505	267,013	8,405	628,422	444,312
Revenues received in advance	—	—	—	—	11,460	—	11,460	—
Other noncurrent liabilities	—	205,957	—	—	166,382	73,709	446,048	21,329
Total noncurrent liabilities	5,561,000	3,165,821	726,832	7,814,324	5,305,626	932,857	23,506,460	11,636,904
Total liabilities	**6,309,000**	**3,582,210**	**1,656,824**	**8,516,327**	**6,567,060**	**974,911**	**27,606,332**	**13,301,619**
DEFERRED INFLOWS OF RESOURCES	—	822,886	—	—	—	—	822,886	—
Total liabilities and deferred inflows of resources	**6,309,000**	**4,405,096**	**1,656,824**	**8,516,327**	**6,567,060**	**974,911**	**28,429,218**	**13,301,619**
NET POSITION								
Net investment in capital assets	—	994,561	95,330	256,895	714,940	3,824	2,065,550	245,439
Restricted:								
Nonexpendable – endowments	—	—	—	—	16,219	—	16,219	—
Expendable:								
Construction	—	210,867	—	—	34,199	—	245,066	282,605
Debt service	—	—	—	—	139	25,975	26,114	4,796
Security for revenue bonds	—	—	—	—	—	325,460	325,460	—
Lottery	—	—	101,109	—	—	—	101,109	—
Unemployment programs	—	—	—	3,800,470	—	—	3,800,470	—
Other purposes	—	—	—	—	44,680	354,415	399,095	—
Total expendable	—	210,867	101,109	3,800,470	79,018	705,850	4,897,314	287,401
Unrestricted	—	—	(95,330)	(6,715,255)	1,760,191	3,388,702	(1,661,692)	14,559
Total net position (deficit)	**—**	**1,205,428**	**101,109**	**(2,657,890)**	**2,570,368**	**4,098,376**	**5,317,391**	**547,399**
Total liabilities, deferred inflows of resources, and net position	**$ 6,309,000**	**$ 5,610,524**	**$ 1,757,933**	**$ 5,858,437**	**$ 9,137,428**	**$ 5,073,287**	**$ 33,746,609**	**$ 13,849,018**

(concluded)

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

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

Statement of Revenues, Expenses and Changes in Fund Net Position

Proprietary Funds

Year Ended June 30, 2014
(amounts in thousands)

	Electric Power	Water Resources	Business-type Activities – Enterprise Funds: State Lottery	Unemployment Programs	California State University	Nonmajor Enterprise	Total	Governmental Activities: Internal Service Funds
OPERATING REVENUES								
Unemployment and disability insurance	$ —	$ —	$ —	$ 15,160,251	$ —	$ —	$ 15,160,251	$ —
Lottery ticket sales	—	—	5,034,661	—	—	—	5,034,661	—
Power sales	(44,000)	131,952	—	—	—	—	87,952	—
Student tuition and fees	—	—	—	—	2,123,212	—	2,123,212	—
Services and sales	—	841,556	—	—	458,527	83,524	1,383,607	2,543,093
Investment and interest	—	—	—	—	—	116,677	116,677	8,173
Rent	—	—	—	—	—	1,044	1,044	418,574
Grants and contracts	—	—	—	—	73,343	—	73,343	—
Other	—	—	—	—	178,656	3,807	182,463	5,143
Total operating revenues	**(44,000)**	**973,508**	**5,034,661**	**15,160,251**	**2,833,738**	**205,052**	**24,163,210**	**2,974,983**
OPERATING EXPENSES								
Lottery prizes	—	—	3,082,376	—	—	—	3,082,376	—
Power purchases (net of recoverable power costs)	(61,000)	241,444	—	—	—	—	180,444	—
Personal services	—	311,144	66,109	163,545	4,033,120	14,961	4,588,879	913,906
Supplies	—	—	16,371	—	1,221,702	—	1,238,073	9,821
Services and charges	15,000	246,065	537,078	85,466	—	87,003	970,612	1,587,712
Depreciation	—	68,896	6,075	7,423	259,201	461	342,056	47,903
Scholarships and fellowships	—	—	—	—	862,479	—	862,479	—
Distributions to beneficiaries	—	—	—	13,416,969	—	—	13,416,969	—
Interest expense	—	—	—	—	—	38,486	38,486	440,300
Amortization (recovery) of long-term prepaid charges	—	—	—	—	—	—	—	1,496
Other	—	—	—	—	—	1,491	1,491	9,393
Total operating expenses	**(46,000)**	**867,549**	**3,708,009**	**13,673,403**	**6,376,502**	**142,402**	**24,721,865**	**3,010,531**
Operating income (loss)	2,000	105,959	1,326,652	1,486,848	(3,542,764)	62,650	(558,655)	(35,548)
NONOPERATING REVENUES (EXPENSES)								
Donations and grants	—	—	—	—	1,491,559	—	1,491,559	—
Private gifts	—	—	—	—	39,636	—	39,636	—
Investment and interest income	879,000	—	43,288	7,007	43,610	1,275	974,180	575
Interest expense and fiscal charges	(881,000)	(115,499)	(42,998)	—	(168,434)	(355)	(1,208,286)	(3)
Lottery payments for education	—	—	(1,327,928)	—	—	—	(1,327,928)	—
Loss on early extinguishment of debt	—	—	—	—	—	(26,913)	(26,913)	(54,537)
Other	—	9,540	27	—	97,046	(9)	106,604	(1,555)
Total nonoperating revenues (expenses)	**(2,000)**	**(105,959)**	**(1,327,611)**	**7,007**	**1,503,417**	**(26,002)**	**48,852**	**(55,520)**
Income (loss) before capital contributions and transfers	—	—	(959)	1,493,855	(2,039,347)	36,648	(509,803)	(91,068)
Capital contributions	—	—	—	—	—	80,903	80,903	—
Transfers in	—	—	—	—	2,302,858	—	2,302,858	76,657
Transfers out	—	—	—	—	—	(6,848)	(6,848)	(109,870)
Change in net position	—	—	(959)	1,493,855	263,511	110,703	1,867,110	(124,281)
Total net position (deficit) – beginning	**—**	**1,205,428**	**102,068**	**(4,151,745)**	**2,306,857 ***	**3,987,673**	**3,450,281**	**671,680 ***
Total net position (deficit) – ending	**$ —**	**$ 1,205,428**	**$ 101,109**	**$ (2,657,890)**	**$ 2,570,368**	**$ 4,098,376**	**$ 5,317,391**	**$ 547,399**

*Restated

Statement of Cash Flows

Proprietary Funds

Year Ended June 30, 2014
(amounts in thousands)

			Business-type Activities – Enterprise Funds					Governmental Activities
	Electric Power	Water Resources	State Lottery	Unemployment Programs	California State University	Nonmajor Enterprise	Total	Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES								
Receipts from customers/employers	$ (38,000)	$ 986,586	$ 5,013,487	$ 15,150,430	$ 2,583,311	$ 367,535	$ 24,063,349	$ 3,328,192
Receipts from interfund services provided	—	—	—	—	—	419	419	131,813
Payments to suppliers	(38,000)	(461,499)	(218,881)	(85,464)	(1,175,200)	(85,538)	(2,064,582)	(1,563,512)
Payments to employees	(4,000)	(311,144)	(50,726)	(143,569)	(3,951,474)	(13,533)	(4,474,446)	(843,001)
Payments for interfund services used	—	—	(15,070)	(35,075)	—	(950)	(51,095)	(93,495)
Payments for Lottery prizes	—	—	(3,567,224)	—	—	—	(3,567,224)	—
Claims paid to other than employees	—	—	(345,503)	(13,698,487)	—	—	(14,043,990)	—
Other receipts (payments)	—	46,099	499,198	135,638	(651,704)	(260,098)	(230,867)	(451,504)
Net cash provided by (used in) operating activities	**(80,000)**	**260,042**	**1,315,281**	**1,323,473**	**(3,195,067)**	**7,835**	**(368,436)**	**508,493**
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES								
Changes in interfund payables and loans payable	—	—	—	(951,927)	(1,213)	—	(953,140)	567
Receipt of bond charges	864,000	—	—	—	—	—	864,000	—
Retirement of general obligation bonds	—	—	—	—	—	(151,715)	(151,715)	—
Retirement of revenue bonds	(611,000)	—	—	—	—	(85,391)	(696,391)	—
Interest paid on operating debt	(312,000)	—	—	—	—	(2,080)	(314,080)	(415)
Transfers in	—	—	—	—	2,302,858	—	2,302,858	76,657
Transfers out	—	—	—	—	—	(6,848)	(6,848)	(109,870)
Grants received	—	—	—	—	1,618,834	—	1,618,834	—
Lottery payments for education	—	—	(1,415,702)	—	—	—	(1,415,702)	—
Net cash provided by (used in) noncapital financing activities	**(59,000)**	**—**	**(1,415,702)**	**(951,927)**	**3,920,479**	**(246,034)**	**1,247,816**	**(33,061)**
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES								
Acquisition of capital assets	—	(210,594)	(19,178)	(2,824)	(430,502)	(430)	(663,528)	(1,338,493)
Proceeds from sale of capital assets	—	—	39	14,467	405	—	14,911	18,558
Proceeds from notes payable and commercial paper	—	108,765	—	—	17,733	—	126,498	—
Principal paid on notes payable and commercial paper	—	(123,134)	—	—	—	—	(123,134)	—
Proceeds from capital leases	—	—	—	—	68,756	—	68,756	—
Payment on capital debt and leases	—	—	—	—	(384,777)	—	(384,777)	—
Retirement of general obligation bonds	—	(61,085)	—	—	—	—	(61,085)	—
Proceeds from revenue bonds	—	180,159	—	—	464,372	—	644,531	2,323,173
Retirement of revenue bonds	—	(114,775)	—	—	(349,702)	—	(464,477)	(412,085)
Interest paid	—	(120,230)	—	—	—	—	(120,230)	—
Grants received	—	—	—	—	26,473	82,351	108,824	—
Net cash provided by (used in) capital and related financing activities	**—**	**(340,894)**	**(19,139)**	**11,643**	**(587,242)**	**81,921**	**(853,711)**	**591,153**
CASH FLOWS FROM INVESTING ACTIVITIES								
Purchase of investments	—	(252,174)	(65,037)	—	(7,743,216)	(2,500)	(8,062,927)	—
Proceeds from maturity and sale of investments	—	252,174	134,853	14,748	7,497,304	—	7,899,079	—
Change in interfund receivables and loans receivable	—	1,237	—	—	—	—	1,237	—
Earnings on investments	18,000	7,758	23,080	7,007	20,721	1,310	77,876	576
Net cash provided by (used in) investing activities	**18,000**	**8,995**	**92,896**	**21,755**	**(225,191)**	**(1,190)**	**(84,735)**	**576**
Net increase (decrease) in cash and pooled investments	(121,000)	(71,857)	(26,664)	404,944	(87,021)	(157,468)	(59,066)	1,067,161
Cash and pooled investments – beginning	**1,401,000**	**621,563**	**342,925**	**3,135,982**	**533,081**	**846,859**	**6,881,410**	**3,669,911**
Cash and pooled investments – ending	**$ 1,280,000**	**$ 549,706**	**$ 316,261**	**$ 3,540,926**	**$ 446,060**	**$ 689,391**	**$ 6,822,344**	**$ 4,737,072**

(continued)

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

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

Statement of Cash Flows (continued)

Proprietary Funds

Year Ended June 30, 2014
(amounts in thousands)

	Electric Power	Water Resources	Business-type Activities – Enterprise Funds: State Lottery	Unemployment Programs	California State University	Nonmajor Enterprise	Total	Governmental Activities: Internal Service Funds
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES								
Operating income (loss)	$ 2,000	$ 105,959	$ 1,326,652	$ 1,486,848	$ (3,542,764)	$ 62,650	$ (558,655)	$ (35,548)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:								
Interest expense on operating debt	—	—	—	—	—	—	—	412
Depreciation	—	68,896	6,075	7,423	259,201	461	342,056	47,903
Provisions and allowances	—	—	922	—	—	(3,586)	(2,664)	—
Amortization of premiums and discounts	—	—	—	—	—	505	505	(44,113)
Amortization of long-term prepaid charges and credits	—	(11,996)	3,230	—	—	948	(7,818)	18,058
Other	—	46,098	12	—	(3,678)	(8,480)	33,952	8,598
Change in assets and liabilities:								
Receivables	—	57,304	(42,663)	33,778	8,258	2,208	58,885	9,177
Due from other funds	—	—	—	(7,220)	1,105	11	(6,104)	71,084
Due from other governments	—	(19,202)	—	97,362	—	1,450	79,610	5,312
Prepaid items	—	—	—	—	(4,187)	(26)	(4,213)	(14,686)
Inventories	—	2,211	377	—	—	(425)	2,163	16,304
Net investment in direct financing leases	—	—	—	—	—	8,468	8,468	389,895
Recoverable power costs (net)	(94,000)	—	—	—	—	—	(94,000)	—
Other current assets	14,000	—	464	—	—	98	14,562	—
Loans receivable	—	—	—	—	(1,459)	(63,829)	(65,288)	—
Accounts payable	(3,000)	25,290	(1,812)	2	(9,710)	(1,662)	9,108	2,795
Due to other funds	—	(1,490)	(145)	8,777	—	(966)	6,176	(59,044)
Due to component units	—	—	—	—	—	—	—	(2,059)
Due to other governments	—	(13,028)	—	(6,885)	—	4	(19,909)	585
Deposits	—	—	—	—	196	—	196	(47)
Contracts and notes payable	—	—	—	—	—	—	—	4,487
Interest payable	—	—	—	—	—	(106)	(106)	(3,370)
Revenues received in advance	—	—	(161)	23,957	15,728	(11)	39,513	7,008
Other current liabilities	—	—	794	8,529	5,006	10,744	25,073	(1,306)
Benefits payable	—	—	—	(281,518)	18,839	80	(262,599)	64,971
Lottery prizes and annuities	—	—	14,210	—	—	—	14,210	—
Compensated absences payable	1,000	—	7,326	(3,868)	10,402	24	14,884	(5,593)
Other noncurrent liabilities	—	—	—	23,844	47,996	(725)	71,115	27,670
Total adjustments	(82,000)	154,083	(11,371)	(95,819)	347,697	(54,815)	257,775	544,041
Net cash provided by (used in) operating activities	**$ (80,000)**	**$ 260,042**	**$ 1,315,281**	**$ 1,391,029**	**$ (3,195,067)**	**$ 7,835**	**$ (300,880)**	**$ 508,493**
Noncash investing, capital, and financing activities:								
Interest accreted on annuitized prizes	$ —	$ —	$ 42,998	$ —	$ —	$ —	$ 42,998	$ —
Interest accreted on zero coupon bonds	—	—	15,608	—	—	—	15,608	—
Unclaimed Lottery prizes directly allocated to another entity	—	—	21,673	—	—	—	21,673	—
Impairment loss of utility plant	—	11,795	—	—	—	—	11,795	—
Contributed capital assets	—	—	—	—	20,588	—	20,588	—
Change in accrued capital asset purchases	—	—	—	—	8,945	—	8,945	—
Amortization of bond premium and discount	—	12,029	—	—	15,068	—	27,097	—
Issuance of notes receivable through proceeds from long-term debt	—	—	—	—	40,464	—	40,464	—
Proceeds from long-term debt received directly by discretely presented component units	—	—	—	—	40,464	—	40,464	—
Collection of notes reveivable used to directly pay long-term debt	—	—	—	—	11,685	—	11,685	—
Payment of long-term debt made directly by discretely presented component units	—	—	—	—	11,685	—	11,685	—
Debt restructure and termination of direct financing leases	—	—	—	—	—	22,006	22,006	114,285
Other miscellaneous noncash transactions	—	7,850	4,830	—	16,042	—	28,722	—

(concluded)

Statement of Fiduciary Net Position

Fiduciary Funds and Similar Component Units

June 30, 2014
(amounts in thousands)

	Private Purpose Trust	Pension and Other Employee Benefit Trust	Investment Trust Local Agency Investment	Agency
ASSETS				
Cash and pooled investments	$ 49,896	$ 2,687,933	$ 21,131,371	$ 3,682,227
Investments, at fair value:				
Short-term	—	13,010,538	—	—
Equity securities	3,218,383	270,858,397	—	—
Debt securities	1,844,304	109,483,220	—	—
Real estate	188,273	53,253,600	—	—
Other	777,884	62,879,102	—	—
Securities lending collateral	—	39,699,637	—	—
Total investments	6,028,844	549,184,494	—	—
Receivables (net)	8,499	5,016,735	—	2,129,562
Due from other funds	85,929	567,552	—	20,693,709
Due from other governments	—	18,501	—	7,662
Prepaid items	—	—	—	28,928
Loans receivable	—	22,005	—	7,257
Other assets	172,661	930,877	—	93
Total assets	**6,345,829**	**558,428,097**	**21,131,371**	**$ 26,549,438**
LIABILITIES				
Accounts payable	31,335	2,966,302	45	$ 14,942,369
Due to other governments	—	—	11,251	9,984,233
Tax overpayments	—	—	—	4,632
Benefits payable	—	2,655,305	—	—
Revenues received in advance	—	—	—	22,125
Deposits	172,661	—	—	987,603
Securities lending obligations	—	39,546,799	—	—
Loans payable	—	944,269	—	—
Other liabilities	938	2,090,618	—	608,476
Total liabilities	**204,934**	**48,203,293**	**11,296**	**$ 26,549,438**
NET POSITION				
Restricted for pension benefits, pool participants, and other employee benefits	**$ 6,140,895**	**$ 510,224,804**	**$ 21,120,075**	

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, 2014
(amounts in thousands)

	Private Purpose Trust	Pension and Other Employee Benefit Trust	Investment Trust Local Agency Investment
ADDITIONS			
Contributions:			
Employer	$ —	$ 14,397,367	$ —
Plan member	—	6,958,991	—
Total contributions	—	21,356,358	—
Investment income:			
Net appreciation (depreciation) in fair value of investments	512,830	71,480,345	—
Interest, dividends, and other investment income	244,806	8,581,008	50,201
Less: investment expense	(4,023)	(1,771,132)	—
Net investment income	753,613	78,290,221	50,201
Receipts from depositors	3,059,755	—	21,647,510
Other	—	32,452	—
Total additions	**3,813,368**	**99,679,031**	**21,697,711**
DEDUCTIONS			
Distributions paid and payable to participants	—	31,006,086	48,512
Refunds of contributions	—	444,619	—
Administrative expense	3	565,212	1,689
Interest expense	—	—	—
Payments to and for depositors	2,827,126	618,801	21,739,535
Total deductions	**2,827,129**	**32,634,718**	**21,789,736**
Change in net position	986,239	67,044,313	(92,025)
Net position – beginning	**5,154,656**	**443,180,491**	**21,212,100**
Net position – ending	**$ 6,140,895**	**$ 510,224,804**	**$ 21,120,075**

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

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Discretely Presented Component Units Financial Statements

Statement of Net Position

Discretely Presented Component Units – Enterprise Activity

June 30, 2014
(amounts in thousands)

	University of California	California Housing Finance Agency	Nonmajor Component Units	Total
ASSETS				
Current assets:				
Cash and pooled investments	$ 322,711	$ 1,081,220	$ 949,157	$ 2,353,088
Investments	4,717,181	100,943	404,400	5,222,524
Restricted assets:				
Cash and pooled investments	—	—	128,517	128,517
Investments	—	—	15,929	15,929
Receivables (net)	3,167,380	172,460	447,432	3,787,272
Due from primary government	205,129	—	1,212	206,341
Due from other governments	97,342	—	—	97,342
Prepaid items	—	534	742	1,276
Inventories	194,615	—	—	194,615
Other current assets	208,674	14,145	32,349	255,168
Total current assets	8,913,032	1,369,302	1,979,738	12,262,072
Noncurrent assets:				
Restricted assets:				
Cash and pooled investments	—	—	26,725	26,725
Investments	—	—	14,286	14,286
Investments	25,686,412	403,112	1,841,034	27,930,558
Receivables (net)	2,488,712	—	252,630	2,741,342
Loans receivable	—	3,781,555	285,454	4,067,009
Long-term prepaid charges	—	—	—	—
Capital assets:				
Land	863,455	—	139,066	1,002,521
Collections – nondepreciable	382,277	—	8,401	390,678
Buildings and other depreciable property	41,502,981	1,782	1,995,127	43,499,890
Intangible assets – amortizable	823,393	—	12,578	835,971
Less: accumulated depreciation/amortization	(19,569,114)	(940)	(972,702)	(20,542,756)
Construction in progress	3,642,165	—	19,357	3,661,522
Intangible assets – non-amortizable	—	—	5,082	5,082
Other noncurrent assets	286,504	16,681	50,751	353,936
Total noncurrent assets	56,106,785	4,202,190	3,677,789	63,986,764
Total assets	**65,019,817**	**5,571,492**	**5,657,527**	**76,248,836**
DEFERRED OUTFLOWS OF RESOURCES	**3,705,459**	**25,710**	**6,069**	**3,737,238**
Total assets and deferred outflows of resources	**$ 68,725,276**	**$ 5,597,202**	**$ 5,663,596**	**$ 79,986,074**

(continued)

Statement of Net Position (continued)

Discretely Presented Component Units – Enterprise Activity

June 30, 2014
(amounts in thousands)

	University of California	California Housing Finance Agency	Nonmajor Component Units	Total
LIABILITIES				
Current liabilities:				
Accounts payable	$ 1,483,299	$ 89,309	$ 265,990	$ 1,838,598
Due to other governments	—	—	54,967	54,967
Revenues received in advance	1,061,477	—	66,239	1,127,716
Deposits	561,009	227,493	1,549	790,051
Contracts and notes payable	—	—	16,326	16,326
Interest payable	—	58,170	2,764	60,934
Securities lending obligations	1,269,083	—	—	1,269,083
Current portion of long-term obligations	3,432,534	74,248	298,756	3,805,538
Other current liabilities	1,532,342	599	288,847	1,821,788
Total current liabilities	9,339,744	449,819	995,438	10,785,001
Noncurrent liabilities:				
Compensated absences payable	262,593	—	12,691	275,284
Workers' compensation benefits payable	321,055	—	283	321,338
Certificates of participation, commercial paper, and other borrowings	—	—	20,255	20,255
Capital lease obligations	88,622	—	360,026	448,648
Revenue bonds payable	15,424,508	3,526,190	237,203	19,187,901
Net other postemployment benefits obligation	8,440,303	22,295	117,649	8,580,247
Net pension obligation	7,725,075	—	—	7,725,075
Other noncurrent liabilities	1,206,888	201,429	515,950	1,924,267
Total noncurrent liabilities	33,469,044	3,749,914	1,264,057	38,483,015
Total liabilities	**42,808,788**	**4,199,733**	**2,259,495**	**49,268,016**
DEFERRED INFLOWS OF RESOURCES	**7,108,562**	**—**	**1,561**	**7,110,123**
Total liabilities and deferred inflows of resources	**49,917,350**	**4,199,733**	**2,261,056**	**56,378,139**
NET POSITION				
Net Investment in capital assets	12,166,807	842	515,314	12,682,963
Restricted:				
Nonexpendable – endowments	4,343,651	—	945,897	5,289,548
Expendable:				
Endowments and gifts	9,903,548	—	9,378	9,912,926
Education	783,994	—	924,763	1,708,757
Indenture	—	491,187	—	491,187
Employee benefits	—	—	—	—
Workers' compensation liability	—	—	—	—
Statute	—	986,565	281,696	1,268,261
Other purposes	—	—	25,769	25,769
Total expendable	10,687,542	1,477,752	1,241,606	13,406,900
Unrestricted	(8,390,074)	(81,125)	699,723	(7,771,476)
Total net position	**18,807,926**	**1,397,469**	**3,402,540**	**23,607,935**
Total liabilities, deferred inflows of resources, and net position	**$ 68,725,276**	**$ 5,597,202**	**$ 5,663,596**	**$ 79,986,074**

(concluded)

Statement of Activities

Discretely Presented Component Units – Enterprise Activity

Year Ended June 30, 2014

(amounts in thousands)

	University of California	California Housing Finance Agency	Nonmajor Component Units	Total
OPERATING EXPENSES				
Personal services	$ 17,267,563	$ 29,703	$ 500,490	$ 17,797,756
Scholarships and fellowships	577,212	—	54,938	632,150
Supplies	2,584,968	—	10,726	2,595,694
Services and charges	290,444	29,572	1,272,317	1,592,333
Department of Energy laboratories	1,244,335	—	—	1,244,335
Depreciation	1,739,612	264	74,536	1,814,412
Interest expense and fiscal charges	617,000	122,277	34,895	774,172
Grants provided	642,809	—	—	642,809
Other	3,750,169	53,348	69,477	3,872,994
Total operating expenses	**28,714,112**	**235,164**	**2,017,379**	**30,966,655**
PROGRAM REVENUES				
Charges for services	16,945,088	38,783	1,069,909	18,053,780
Operating grants and contributions	8,051,387	53,462	564,519	8,669,368
Capital grants and contributions	473,464	—	9,147	482,611
Total program revenues	**25,469,939**	**92,245**	**1,643,575**	**27,205,759**
Net revenues (expenses)	(3,244,173)	(142,919)	(373,804)	(3,760,896)
GENERAL REVENUES				
Investment and interest income	2,972,157	171,294	253,750	3,397,201
Other	2,502,492	22,899	433,862	2,959,253
Total general revenues	**5,474,649**	**194,193**	**687,612**	**6,356,454**
Change in net position	2,230,476	51,274	313,808	2,595,558
Net position – beginning	**16,577,450** *	**1,346,195** *	**3,088,732** *	**21,012,377**
Net position – ending	**$ 18,807,926**	**$ 1,397,469**	**$ 3,402,540**	**$ 23,607,935**

* Restated

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

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Notes to the Financial Statements

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements present information on the financial activities of the State of California over which the Governor, the Legislature, and other elected officials have direct or indirect governing and fiscal control. These financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). The provisions of the following Governmental Accounting Standards Board (GASB) Statements have been implemented for the year ended June 30, 2014:

GASB Statement No. 66, *Technical Corrections—2012—an amendment of GASB Statements No. 10 and No. 62*. The objective of this statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements;* and

GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, requires governments that extend a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee.

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, email the State Controller's Office, Division of Accounting and Reporting at StateGovReports@sco.ca.gov.

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. CalPERS' separately issued financial statements may be obtained from the California Public Employees' Retirement System on its website at www.CalPERS.ca.gov.

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 the following 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. CalSTRS' separately issued financial statements may be obtained from the California State Teachers' Retirement System on its website at www.CalSTRS.com.

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. Most component units separately issue their own financial statements. In general, the notes to the financial statements in this publication do not include information found in the component units' separately issued financial statements. Instead, references to the individual component unit financial statements are provided where applicable.

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. The University of California's financial statements may be obtained from the University of California on its website at www.ucop.edu.

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. CalHFA's financial statements may be obtained from the California Housing Finance Agency on its website at www.CalHFA.ca.gov.

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, email the State Controller's Office, Division of Accounting and Reporting at StateGovReports@sco.ca.gov.

The nonmajor consolidated component units segments are:

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.

Financing authorities, which provide financing for specific purposes. These agencies include:

- 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; and

- The *California Urban Waterfront Area Restoration Financing Authority*, which provides financing for coastal and inland urban waterfront restoration projects.

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, 2013).

Other component units, which include the following entities:

- 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 *Public Employees' Contingency Reserve*, which provides health benefit plans for state employees and annuitants.

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, 2014, CADA had total assets of $31.4 million, total liabilities of $19.7 million, and total net position of $11.7 million. Total revenues for the fiscal year were $10.5 million and expenses were $11.3 million, resulting in a decrease in net position of $800,000. 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 or on its website at www.cadanet.org.

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 Independent System Operator, P.O. Box 639014, Folsom, California 95763-9014 or go to its website at www.caiso.com.

The *California Earthquake Authority (CEA)*, a legally separate organization, offers earthquake insurance for California homeowners, renters, condominium owners, and mobilehome 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 or go to its website at www.earthquakeauthority.com.

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 11 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 the State Compensation Insurance Fund, 333 Bush Street, 8th Floor, San Francisco, California 94104 or go to its website at www.statefundca.com.

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 or go to its website at www.treasurer.ca.gov/cpcfa.

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 or go to its website at www.treasurer.ca.gov/chffa.

The *California Educational Facilities Authority (CEFA)* was created by 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 or go to its website at www.treasurer.ca.gov/cefa.

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 or go to its website at www.treasurer.ca.gov/csfa/.

B. Government-wide and Fund Financial Statements

Government-wide financial statements (the Statement of Net Position and the Statement of Activities) provide information on all of 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 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 need not 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 that are all restricted by federal regulations.

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 restricted 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 restricted 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 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 *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, public building 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 unassigned 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. When an asset is recorded in a governmental fund statement, but the revenue is not available per the criterion described herein, the State reports a deferred inflow of resources until such time the revenue becomes available. 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. Cash and Investments

The State considers cash and pooled investments, for the purpose of the Statement of Cash Flows, as cash and cash equivalents. Cash and cash equivalents are considered to be cash on hand, deposits in the State's pooled investment program, restricted cash and pooled investments for debt service, construction and operations, restricted cash on deposit with fiscal agents (for example, revenue bond trustees), and highly liquid investments with an original maturity date of three months or less.

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.

E. Receivables

Amounts are aggregated into a single receivables account net of allowance for uncollectible amounts. The detail of the primary government's accounts receivable can be found in Note 4, Accounts Receivable.

F. 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.

G. Net Investment in Direct Financing Leases

The State Public Works Board accounts for its activities in the Public Buildings Construction Fund, an internal service fund, and has entered into lease-purchase agreements with various other primary government agencies 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 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 in the internal service fund financial statements. As the majority of this lease receivable is from governmental funds, it is eliminated within the governmental activities column of the government-wide Statement of Net Position.

The California State University System (CSU) accounts for its lease activities in the California State University Fund, a major enterprise fund, and has entered into 30-year capital lease agreements with certain auxiliary organizations. These agreements lease existing and newly constructed facilities to the CSU auxiliary organizations. A portion of the proceeds from certain revenue bonds issued by CSU were used to finance the construction of these facilities.

H. 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 on revenue bonds issued. Long-term prepaid charges are also included in the State Lottery Fund and nonmajor enterprise funds. These prepaid charges 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. In the government-wide financial statements, the prepaid charges for governmental activities includes prepaid insurance costs on revenue bonds issued.

I. 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 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.

J. 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 (OPEB), 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 deferred and amortized over the life of the bonds. In these instances, bonds payable is reported net of the applicable premium and discount. Bond premiums and discounts for governmental funds are reported as other financing sources (uses). However, in the government-wide financial statements, the bonds payable for governmental activities is reported net of the applicable unamortized premium and discount. Bond issuance costs, excluding prepaid insurance, are expensed when incurred.

With advance approval 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 fund, the liability for revenue bonds is recorded in the respective fund.

K. 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 governmental fund financial statements, only the compensated absences liability for employees who have left state service and have unused reimbursable leave at year end is 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.

L. Deferred Outflows and Deferred Inflows of Resources

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

1. Deferred Outflows of Resources

Deferred outflows of resources are the consumption of assets that are applicable to future reporting periods. Deferred outflows of resources are presented separately after "Total Assets" in the Balance Sheet and Statement of Net Position.

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

- *Loss on Refunding of Debt*: The defeasance of previously outstanding general obligation and revenue bonds resulted in deferred refunding losses for governmental activities, business-type activities, and component units. These deferred losses are recognized as a component of interest expense over the remaining life of the old debt or the life of the new debt, whichever is shorter.
- *Decrease in Fair Value of Hedging Derivatives*: Negative changes in the fair value of hedging derivatives are reported for business-type activities and component units.
- *Net Pension Liability*: The University of California, a discretely presented component unit, reports the decreases in its net pension liability that were not included in its pension expense as deferred outflows of resources. Also, employer contributions subsequent to the measurement date of the net pension liability are reported as deferred outflows of resources.

2. Deferred Inflows of Resources

Deferred inflows of resources are the acquisition of assets that are applicable to future reporting periods. Deferred inflows of resources are presented separately after "Total Liabilities" in the Balance Sheet and Statement of Net Position.

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

- *Gain on Refunding of Debt*: The defeasance of previously outstanding general obligation and revenue bonds resulted in deferred refunding gains for governmental activities and discretely presented component units. These deferred gains are recognized as a component of interest expense over the remaining life of the old debt or the life of the new debt, whichever is shorter.
- *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. The upfront payment received or present value of installment payments expected to be received from the third parties are reported as deferred inflows of resources.
- *Net Pension Liability*: The University of California reports the increases in its net pension liability that were not included in pension expense as deferred inflows of resources.
- *Other Deferred Inflows of Resources*: Revenues generated from current rates charged by regulated business-type activities that are intended to recover costs expected to be incurred in the future are reported in the government-wide Statement of Net Position. Revenues that are earned and measurable, but not available within 12 months of the end of the reporting period, are reported in the governmental funds' balance sheet.

M. Abnormal Account Balances

In the 2013-14 fiscal year, the Water Resources Electric Power Fund had a net refund of $44 million of 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 2013-14 fiscal year, the fund returned $93 million through adjustments to power charges and through separate monthly payments to its ratepayers.

N. 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 of 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.

O. 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 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, 2014, the government-wide financial statements show restricted net position for the primary government of $28.9 billion, of which $6.8 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 financial statements. Fund balance amounts for governmental funds are reported as nonspendable, restricted, committed, assigned, or unassigned.

Nonspendable fund balance includes amounts that cannot be spent because they are not in spendable form (inventories; prepaid amounts; long-term portion of loans or notes receivable; or property held for resale unless the proceeds are restricted, committed, or assigned) or they are legally or contractually required to remain intact.

Restricted fund balance has constraints placed upon the use of the resources either by an external party (creditors, grantors, contributors, or laws and regulations of other governments) or through a constitutional provision or enabling legislation.

Committed fund balance 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, the California State Legislature. The formal action that commits fund balance to a specific purpose occurred 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 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 reported as nonspendable, restricted, or committed are classified as assigned for the purpose of the respective funds.

Unassigned fund balance is the residual amount of the General Fund not included in the four classifications described above. In other governmental funds in which expenditures incurred for specific purposes exceeded amounts restricted, committed, or assigned to those purposes, a negative unassigned fund balance is reported.

Fund balance spending order: For the purpose of reporting fund balance in this financial report 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.

Fiduciary fund net position is amounts held in trust for benefits and other purposes.

P. Restatement of Beginning Fund Balances and Net Position

1. Fund Financial Statements

The beginning fund balance of *governmental funds* decreased by a net total of $566 million. This decrease is comprised of an understatement of $444 million for education expenditures that support community colleges and an overstatement of $357 million of retail sales tax revenue in the *General Fund*, and the following restatements in *nonmajor governmental funds*:

- $212 million increase as a result of a change in the tobacco settlement revenue recognition methodology in the *Golden State Tobacco Securitization Corporation Fund*;
- $26 million increase due to the understatement of retail sales tax revenue in the *Economic Recovery Bond Sinking Fund*; and
- $3 million decrease due to the movement of a fund previously reported within the *Financing for Local Governments and the Public* special revenue fund that is now administered by a discretely presented component unit reported within the *financing authorities* consolidated nonmajor component unit segment.

The beginning net position of the *internal service funds* increased by $419 million. This increase is comprised of $368 million, as adjusted for capitalized interest of $11.8 million, due to the reclassification of the *Public Building Construction Fund* from an enterprise fund to an internal service fund. The remaining $51 million increase resulted from understated capital assets and understated revenue in the *Financial Information Systems Fund*.

The beginning net position of the *enterprise funds* decreased by $616 million. The decrease is comprised of the $380 million prior year net position of the *Public Buildings Construction Fund* that was reclassified from an enterprise fund to an internal service fund and the $236 million transfer of capital lease obligation from governmental activities to the *California State University Fund*, a major enterprise fund.

Beginning net position of the *discretely presented component units* decreased by $6.3 billion. This decrease is primarily the result of the *University of California's* implementation of GASB Statement No. 65 and GASB Statement No. 68, as well as a change in its reporting entity. Further information related to these restatements is included in the University's separately issued financial statements which can be obtained from the University on its website at www.ucop.edu. In addition, other component units had small restatements to their beginning net position as follows:

- $39 million increase for understated loans receivable of the *California Housing Finance Agency*;
- $6 million decrease for OPEB obligation and other adjustments of the *California State University Auxiliary Organizations*;
- $3 million increase due to the movement of a fund previously reported as a special revenue fund by the primary government to the *financing authorities* consolidated nonmajor component unit segment; and
- $239,000 net increase for the implementation of GASB 65, understated liabilities, and unrecorded capital assets for the *district agricultural associations*.

2. Government-wide Financial Statements

The beginning net position of the *governmental activities* increased by $2.3 billion. In addition to the amounts described in the previous section for governmental funds, the restatement comprises a $2.2 billion increase for understated capital assets and the $236 million increase for the transfer from governmental activities of capital lease obligations of the *California State University Fund* described in the previous section for enterprise funds.

The beginning net position of *business-type activities* and *component units* were restated as described in the previous section for enterprise funds and discretely presented component units, respectively.

Q. Guaranty Deposits

The State is the custodian of guaranty deposits held to protect consumers, to secure the State's deposits in financial institutions, and to ensure payment of taxes and fulfillment of obligations to the State. Guaranty deposits of securities and other properties are not shown on the financial statements.

NOTE 2: BUDGETARY AND LEGAL COMPLIANCE

A. Budgeting and Budgetary Control

The State's annual budget is prepared primarily on a modified accrual basis for governmental funds. The Governor recommends a budget for approval by the Legislature each year. This recommended budget includes estimated revenues, but 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, 2014, increased spending authority for the budgetary/legal basis reported General Fund, and decreased spending authority for the Environmental and Natural Resources Funds and Transportation Funds.

Appropriations are generally available for expenditure or encumbrance either in the year appropriated or for a period of three years if the legislation does not specify a period of availability. At the end of the availability period, the encumbering authority for the unencumbered balance lapses. Some appropriations continue indefinitely, while others are available until fully spent. Generally, encumbrances must be liquidated within two years from the end of the period in which the appropriation is available. If the encumbrances are not liquidated within this additional two-year period, the spending authority for these encumbrances lapses.

B. Legal Compliance

State agencies are responsible for exercising basic budgetary control and ensuring that appropriations are not overspent. The State Controller's Office is responsible for overall appropriation control and does not allow expenditures in excess of authorized appropriations.

Financial activities are mainly controlled at the appropriation level but can vary, depending on the presentation and wording contained in the Budget Act. The Budget Act appropriations are identified by department, reference item, and fund. The annual appropriated budget may establish detailed allocations to specific programs, projects, or sources of reimbursement within an appropriation. The Department of Finance can authorize adjustments between the detail allocations but cannot increase the amount of the overall appropriation. While the financial activities are controlled at various levels, the legal level of budgetary control—the extent to which management may amend the budget without seeking approval of the governing body—has been established in the Budget Act for the annual operating budget.

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 Codification of Governmental Accounting and Financial Reporting Standards, Section 2400.121. The supplement 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 by emailing the State Controller's Office, Division of Accounting and Reporting at StateGovReports@sco.ca.gov.

NOTE 3: DEPOSITS AND INVESTMENTS

Cash balances not required for immediate use are invested by the State Treasurer. 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.

A. Primary Government

1. Control of State Funds

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 and a related organization participate in the State Treasurer's Office pooled investment program. As of June 30, 2014, the discretely presented component units and the related organization account for approximately 3.2% 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 that compensates the banks for their services.

Demand and time deposits held by financial institutions as of June 30, 2014, totaling approximately $7.3 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, 2014, the State Treasurer's Office had on deposit with a fiscal agent amounts totaling $19 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.

Certain funds have elected to participate in the pooled investment program even though they have the authority to invest on their own. Others may be required by legislation to participate in the program; as a result, the deposits of these funds may be considered involuntary. However, these funds are part of the State's reporting entity. The remaining participant 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 assigned to the State's General Fund. Most of the $16 million in interest revenue received by the General Fund from the pooled investment program in fiscal year 2013-14 was earned on balances in these funds.

Enterprise funds and special revenue funds also make separate investments, which are presented at fair value.

2. Valuation of State Investments

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 can be obtained from the State Treasurer's Office website at www.treasurer.ca.gov.

As of June 30, 2014, the weighted average maturity of the securities in the pooled investment program administered by the State Treasurer's Office was approximately 239 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.

3. Oversight of Investing Activities

The Pooled Money Investment Board (PMIB) 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 PMIB 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, 2014, 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.

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, 2014, medium-term asset-backed securities comprised approximately 1.19% of the pooled investments. The asset-backed securities consist 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 SBA 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 were short-term, asset-backed commercial paper (ABCP), which represented 0.84% of the pooled investments.

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. Maturities are limited by the State Treasurer's Office Investment Policy for the Pooled Money Investment Program. For commercial paper, the Investment Policy is more restrictive than the Government Code. For corporate bonds and notes, the Government Code requires that a security fall within the top three ratings of a nationally recognized statistical ratings organization (NASRO). Items reported as N/A have no limitation in either the Government Code or the State Treasurer's Office Investment Policy.

Table 1

Authorized Investments

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer	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
Corporate bonds/notes	5 years	N/A	N/A	A-/A3/A-
Repurchase agreements	1 year	N/A	N/A	N/A
Reverse repurchase agreements	1 year	10%	N/A	N/A

4. Risk of Investments

The following types of risks are common in deposits and investments, including those of the State:

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. Interest Rate Risk

Table 2 presents the interest rate risk of the primary government's investments. In calculating SBA holdings' weighted average maturity, the State Treasurer's Office assumes that stated maturity is the quarterly reset date. Total pooled investments do not include $4.8 billion of time deposits and $314 million of internal loans to state funds. Repurchase agreements of the California State University system mature in one day. Most mortgage-backed securities are issued by U.S. government agencies, or government-sponsored enterprises such as the Federal National Mortgage Association, and entitle the purchaser to receive a share of the cash flows, such as principal and interest payments, from a pool of mortgages. Mortgage-backed securities are highly sensitive to interest rate changes because principal prepayments either increase (in a low interest rate environment) or decrease (in a high interest rate environment) the security yield. As of June 30, 2014, only $130 million, or 0.22% of the total pooled investments, was invested in mortgage-backed securities.

Table 2

Schedule of Investments – Primary Government – Interest Rate Risk
June 30, 2014
(amounts in thousands)

	Fair Value at Year End	Weighted Average Maturity (in years)
Pooled investments		
U.S. Treasury bills and notes	$ 34,926,335	0.94
U.S. Agency bonds and discount notes	4,685,570	0.50
Supranatural debentures and discount notes (IBRD)	150,040	1.56
Small Business Administration loans	581,690	0.25
Mortgage-backed securities	130,274	2.37
Certificates of deposit	11,993,881	0.22
Bank notes	599,930	0.14
Commercial paper	6,698,100	0.11
Total pooled investments	**59,765,820**	
Other primary government investments		
U.S. Treasuries and agencies	2,285,376	2.58
Commercial paper	252,683	0.73
Guaranteed investment contracts	210,327	8.66
Corporate debt securities	1,011,356	2.08
Repurchase agreements	2,274	0.00
Other	953,463	3.49
Total other primary government investments	**4,715,479**	
Funds outside primary government included in pooled investments		
Less: investment trust funds	21,104,087	
Less: other trust and agency funds	1,750,530	
Less: discretely presented component units and related organizations	1,901,592	
Total primary government investments	**$ 39,725,090**	

b. Credit Risk

Table 3 presents the credit risk of the primary government's debt securities. If a particular security has multiple ratings, the lowest rating of the three major NASROs is used. Similar to interest rate risk shown in Table 2, time deposits and internal loans to state funds are not included.

Table 3

Schedule of Investments in Debt Securities – Primary Government – Credit Risk
June 30, 2014
(amounts in thousands)

Credit Rating as of Year End			
Short-term	**Long-term**		**Fair Value**
Pooled investments			
A-1+/P-1/F-1+	AAA/Aaa/AAA	$	10,594,908
A-1/P-1/F-1	AA/Aa/AA		13,532,613
Not rated			130,274
Not applicable			35,508,025
Total pooled investments		**$**	**59,765,820**
Other primary government investments			
A-1+/P-1/F-1+	AAA/Aaa/AAA	$	917,961
A-1/P-1/F-1	AA/Aa/AA		1,782,457
A-2/P-2/F-2	A/A/A		768,419
A-3/P-3/F-3	BBB/Baa/BBB		27,441
Not rated			444,488
Not applicable			774,713
Total other primary government investments		**$**	**4,715,479**

c. 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, 2014, one guaranteed investment contract of the Electric Power Fund in the amount of $100 million was uninsured and uncollateralized.

d. 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. As of June 30, 2014, the State did not hold debt securities in any one issuer (other than U.S. Treasury securities) that represented 5% or more of the primary government investments.

B. Fiduciary Funds

The fiduciary funds include pension and other employee benefit trust funds of the following fiduciary funds and component units: California Public Employees' Retirement System (CalPERS), 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.

Additional disclosure for CalPERS' investments and derivative instruments is included in CalPERS' separately issued financial statements, which can be obtained from CalPERS on its website at www.CalPERS.ca.gov. Additional disclosure for CalSTRS' investments and derivative instruments is included in CalSTRS' separately issued financial statements, which can be obtained from CalSTRS on its website at www.CalSTRS.com.

C. Discretely Presented Component Units

The discretely presented component units consist of the University of California and its foundation, the California Housing Finance Agency (CalHFA), and various nonmajor component units. The University and CalHFA constitute 93% 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 nonmajor component units are invested in the State Treasurer's pooled investment program.

Additional disclosures for the University of California's investments and derivative instruments are included in the University's separately issued financial statements, which can be obtained from the University on its website at www.ucop.edu. Additional disclosure for CalHFA's investments and derivative instruments is included in CalHFA's separately issued financial statements, which can be obtained from CalHFA on its website at www.CalHFA.ca.gov.

NOTE 4: ACCOUNTS RECEIVABLE

Table 4 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 4

Schedule of Accounts Receivable
June 30, 2014
(amounts in thousands)

	Taxes	Lottery Retailers	Unemployment Programs	California State University	Other	Total
Current governmental activities						
General Fund	$ 12,482,261	$ —	$ —	$ —	$ 683,690	$ 13,165,951
Federal Fund	—	—	—	—	12,520	12,520
Transportation Fund	638,349	—	—	—	490,805	1,129,154
Environmental and Natural Resources Fund	—	—	—	—	523,853	523,853
Nonmajor governmental funds	435,737	—	—	—	3,021,169	3,456,906
Internal service funds	—	—	—	—	109,934	109,934
Adjustment:						
Unavailable revenue [1]	(1,608,039)	—	—	—	(385,974)	(1,994,013)
Total current governmental activities	**$ 11,948,308**	**$ —**	**$ —**	**$ —**	**$ 4,455,997**	**$ 16,404,305**
Amounts not scheduled for collection during the subsequent year (unavailable revenue)	**$ 1,608,039**	**$ —**	**$ —**	**$ —**	**$ 450,350** [2]	**$ 2,058,389**
Current business-type activities						
Water Resources Fund	$ —	$ —	$ —	$ —	$ 35,068	$ 35,068
State Lottery Fund	—	404,239	—	—	—	404,239
Unemployment Programs Fund	—	—	1,307,800	—	—	1,307,800
California State University	—	—	—	191,054	—	191,054
Nonmajor enterprise programs	—	—	—	—	32,321	32,321
Total current business-type activities	**$ —**	**$ 404,239**	**$ 1,307,800**	**$ 191,054**	**$ 67,389**	**$ 1,970,482**
Amounts not scheduled for collection during the subsequent year (unavailable revenue)	**$ —**	**$ —**	**$ 32,109**	**$ 253,902**	**$ —**	**$ 286,011**

[1] The unavailable revenue reported in the governmental fund financial statements represents revenues that are earned and measurable, but not available within 12 months of the end of the reporting period.
[2] Amount includes noncurrent receivables for service concession arrangements of $64 million that were not included in the governmental fund financial statements.

NOTE 5: RESTRICTED ASSETS

Table 5 presents a summary of the legal restrictions placed on assets of the primary government and the discretely presented component units.

Table 5

Schedule of Restricted Assets
June 30, 2014
(amounts in thousands)

	Cash and Pooled Investments	Investments	Due From Other Governments	Loans Receivable	Total
Primary government					
Debt service	$ 1,725,392	$ 372,388	$ 20,182	$ 305,278	$ 2,423,240
Construction	3,254,758	—	—	—	3,254,758
Operations	147,000	—	—	—	147,000
Other	3,636	—	—	—	3,636
Total primary government	**5,130,786**	**372,388**	**20,182**	**305,278**	**5,828,634**
Discretely presented component units					
Debt service	155,242	30,215	—	—	185,457
Total discretely presented component units	**155,242**	**30,215**	**—**	**—**	**185,457**
Total restricted assets	**$ 5,286,028**	**$ 402,603**	**$ 20,182**	**$ 305,278**	**$ 6,014,091**

NOTE 6: NET INVESTMENT IN DIRECT FINANCING LEASES

The State Public Works Board (SPWB) accounts for its activities in the Public Buildings Construction Fund, an internal service fund, and has entered into lease-purchase agreements with various other primary government agencies and certain local agencies. Payments from these leases will be used to satisfy the principal and interest requirements of revenue bonds issued by the SPWB. The lease-purchase activity between the SPWB and the primary government agencies shown in the schedule below represents only that activity with agencies reported as enterprise funds. The lease receivable of $6.0 billion from governmental funds along with the corresponding lease obligation was eliminated within the governmental activities column of the government-wide Statement of Net Position.

California State University System (CSU) accounts for its lease activities in the California State University 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 6 summarizes the minimum lease payments to be received by the primary government.

Table 6

Schedule of Minimum Lease Payments to be Received by the Primary Government
(amounts in thousands)

	State Public Works Board			
Year Ending June 30	Primary Government Agencies	Local Agencies	Total	California State University
2015	$ 96,981	$ 62,177	$ 159,158	$ 29,305
2016	93,299	53,892	147,191	26,639
2017	91,228	39,986	131,214	26,930
2018	78,068	32,698	110,766	27,014
2019	68,417	26,183	94,600	27,039
2020-2024	263,993	64,282	328,275	144,956
2025-2029	214,944	63,317	278,261	145,181
2030-2034	195,607	26,383	221,990	114,458
2035-2039	34,447	—	34,447	36,895
2040-2044	—	—	—	22,465
2045-2049	—	—	—	4,495
Total minimum lease payments	**1,136,984**	**368,918**	**1,505,902**	**605,377**
Less: unearned income	467,486	86,347	553,833	235,020
Net investment in direct financing leases	669,498	282,571	952,069	370,357
Less: current portion	52,638	48,191	100,829	11,442
Noncurrent net investment in direct financing leases	**$ 616,860**	**$ 234,380**	**$ 851,240**	**$ 358,915**

NOTE 7: CAPITAL ASSETS

Table 7 summarizes the capital activity for the primary government.

Table 7

Schedule of Changes in Capital Assets – Primary Government
June 30, 2014
(amounts in thousands)

	Beginning Balance	Additions	Deductions	Ending Balance
Governmental activities				
Capital assets not being depreciated/amortized				
Land	$ 17,871,142 *	$ 498,492	$ 111,239	$ 18,258,395
State highway infrastructure	64,183,838 *	1,213,741	128,893	65,268,686
Collections	22,645	—	15	22,630
Construction in progress	14,053,023 *	3,680,687	2,875,936	14,857,774
Intangible assets	1,106,355 *	377,103	17,051	1,466,407
Total capital assets not being depreciated/amortized	**97,237,003**	**5,770,023**	**3,133,134**	**99,873,892**
Capital assets being depreciated/amortized				
Buildings and improvements	20,448,490 *	1,626,299	16,820	22,057,969
Infrastructure	738,492	532	3,312	735,712
Equipment and other assets	4,654,507 *	372,011	266,336	4,760,182
Intangible assets	992,911 *	104,748	6,689	1,090,970
Total capital assets being depreciated/amortized	**26,834,400**	**2,103,590**	**293,157**	**28,644,833**
Less accumulated depreciation/amortization for:				
Buildings and improvements	6,841,635 *	538,495	10,287	7,369,843
Infrastructure	325,336	19,510	2,244	342,602
Equipment and other assets	3,903,250 *	307,322	247,150	3,963,422
Intangible assets	396,561 *	83,013	5,431	474,143
Total accumulated depreciation/amortization	**11,466,782**	**948,340**	**265,112**	**12,150,010**
Total capital assets being depreciated/amortized, net	**15,367,618**	**1,155,250**	**28,045**	**16,494,823**
Governmental activities, capital assets, net	**$ 112,604,621**	**$ 6,925,273**	**$ 3,161,179**	**$ 116,368,715**
Business-type activities				
Capital assets not being depreciated/amortized				
Land	$ 216,888	$ 5,395	$ 145	$ 222,138
Collections	6,051	1,680	20	7,711
Construction in progress	885,919 *	483,767	605,621	764,065
Intangible assets	403,979	16,596	171,974	248,601
Total capital assets not being depreciated/amortized	**1,512,837**	**507,438**	**777,760**	**1,242,515**
Capital assets being depreciated/amortized				
Buildings and improvements	10,451,931	838,891	465,750	10,825,072
Infrastructure	236,149	28,554	2,706	261,997
Equipment and other assets	576,331	88,915	14,117	651,129
Intangible assets	174,195 *	163,074	1,218	336,051
Total capital assets being depreciated/amortized	**11,438,606**	**1,119,434**	**483,791**	**12,074,249**
Less accumulated depreciation/amortization for:				
Buildings and improvements	4,164,763	256,776	440,014	3,981,525
Infrastructure	61,446	12,145	1,937	71,654
Equipment and other assets	347,815	53,901	11,194	390,522
Intangible assets	119,035	19,234	621	137,648
Total accumulated depreciation/amortization	**4,693,059**	**342,056**	**453,766**	**4,581,349**
Total capital assets being depreciated/amortized, net	**6,745,547**	**777,378**	**30,025**	**7,492,900**
Business-type activities, capital assets, net	**$ 8,258,384**	**$ 1,284,816**	**$ 807,785**	**$ 8,735,415**

* Restated

Table 8 summarizes the depreciation expense charged to the activities of the primary government.

Table 8

Schedule of Depreciation Expense – Primary Government
June 30, 2014
(amounts in thousands)

	Amount
Governmental activities	
General government	$ 130,960
Education	173,453
Health and human services	74,771
Resources	51,767
State and consumer services	66,722
Business and transportation	182,251
Correctional programs	220,513
Internal service funds (charged to the activities that utilize the fund)	47,903
Total governmental activities	**948,340**
Business-type activities	**342,056**
Total primary government	**$ 1,290,396**

Table 9 summarizes the capital activity for discretely presented component units.

Table 9

Schedule of Changes in Capital Assets – Discretely Presented Component Units
June 30, 2014
(amounts in thousands)

	Beginning Balance	Additions	Deductions	Ending Balance
Capital assets not being depreciated/amortized				
Land	$ 986,996 *	$ 28,058	$ 12,533	$ 1,002,521
Collections	362,373	28,441	136	390,678
Construction in progress	2,991,757 *	803,485	133,720	3,661,522
Intangible assets	5,131	—	49	5,082
Total capital assets not being depreciated/amortized	**4,346,257**	**859,984**	**146,438**	**5,059,803**
Capital assets being depreciated/amortized				
Buildings and improvements	31,251,445 *	1,578,315	46,088	32,783,672
Infrastructure	666,799	18,349	62	685,086
Equipment and other depreciable assets	9,822,467 *	566,709	358,044	10,031,132
Intangible assets	674,542	210,312	48,883	835,971
Total capital assets being depreciated/amortized	**42,415,253**	**2,373,685**	**453,077**	**44,335,861**
Less accumulated depreciation/amortization for:				
Buildings and improvements	11,724,481 *	1,153,760	17,902	12,860,339
Infrastructure	305,908	23,211	22	329,097
Equipment and other depreciable assets	6,807,869 *	612,565	358,877	7,061,557
Intangible assets	299,981	24,876	33,094	291,763
Total accumulated depreciation/amortization	**19,138,239**	**1,814,412**	**409,895**	**20,542,756**
Total capital assets being depreciated/amortized, net	**23,277,014**	**559,273**	**43,182**	**23,793,105**
Capital assets, net	**$ 27,623,271**	**$ 1,419,257**	**$ 189,620**	**$ 28,852,908**

* Restated

NOTE 8: ACCOUNTS PAYABLE

Accounts payable are amounts, related to different programs, that are due taxpayers, vendors, customers, beneficiaries, and employees. Table 10 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 10

Schedule of Accounts Payable
June 30, 2014
(amounts in thousands)

	Education	Health and Human Services	Resources	Business and Transportation	General Government and Others	Total
Governmental activities						
General Fund	$ 196,859	$ 547,660	$ 205,604	$ 628	$ 407,582	$ 1,358,333
Federal Fund	31,065	331,696	61,154	260,963	123,443	808,321
Transportation Fund	—	4	3,961	367,506	49,959	421,430
Environmental and Natural Resources Fund	500	1,101	349,490	—	7,645	358,736
Nonmajor governmental funds	26,285	301,260	20,287	6,441	580,509	934,782
Internal service funds	11	—	19,497	—	483,689	503,197
Adjustment:						
Fiduciary funds	5,911,355	14,646,519	—	54,684	734,615	21,347,173
Total governmental activities	**$ 6,166,075**	**$ 15,828,240**	**$ 659,993**	**$ 690,222**	**$ 2,387,442**	**$ 25,731,972**
Business-type activities						
Electric Power Fund	$ —	$ —	$ 6,000	$ —	$ —	$ 6,000
Water Resources Fund	—	—	78,158	—	—	78,158
State Lottery Fund	—	—	—	—	52,691	52,691
Unemployment Programs Fund	—	19	—	—	—	19
California State University	173,638	—	—	—	—	173,638
Nonmajor enterprise funds	—	88	—	—	2,549	2,637
Adjustment:						
Fiduciary funds	—	—	—	—	17	17
Total business-type activities	**$ 173,638**	**$ 107**	**$ 84,158**	**$ —**	**$ 55,257**	**$ 313,160**

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.

There were no outstanding RANs at the beginning of the fiscal year. To fund cash flow needs for fiscal year 2013-14, the State issued $5.5 billion in RANs on August 15, 2013. The RANs were repaid during May and June of 2014.

NOTE 10: LONG-TERM OBLIGATIONS

As of June 30, 2014, the primary government had long-term obligations totaling $168.8 billion. Of that amount, $7.7 billion is due within one year. For governmental activities, the beginning balance of revenue bonds increased $11.8 billion and the beginning balance of capital lease obligations decreased $5.1 billion as a result of the reclassification of the Public Buildings Construction Fund from an enterprise fund (business-type activity) to an internal service fund (governmental activity). This reclassification resulted in the elimination of the capital lease obligation of the governmental funds to the Public Buildings Construction Fund in the government-wide Statement of Net Position. After these beginning balance restatements, the largest changes in long-term obligations for governmental activities are an increase of $3.1 billion in net other postemployment benefits obligation and an increase of $1.1 billion in state-mandated cost claims payable. Another notable increase occurred in general obligation bonds payable. Notable decreases occurred in revenue bonds payable and compensated absences payable.

Not included in the mandated cost claims payable shown in Table 11 are certain state-mandated programs that are in the adjudication process. Until the Commission on State Mandates 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.

As of June 30, 2014, the pollution remediation obligations increased by $73 million to $1.1 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, 2014, the State estimates that remediation costs at Stringfellow will total $385 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. 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, as required by state law.

The other long-term obligations for governmental activities consist of $43 million owed for lawsuits, the University of California unfunded pension liability of $24 million, and the Technology Services Revolving Fund notes payable of $36 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 $952 million for loans payable to the U.S. Department of Labor to cover shortfalls in the Unemployment Programs Fund and a decrease of $812 million in revenue bonds payable (after the previously discussed restatement of the beginning balance for the reclassification of the Public Buildings Construction Fund from an enterprise fund to an internal service fund).

Table 11 summarizes the changes in long-term obligations during the year ended June 30, 2014.

Table 11

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

	Balance July 1, 2013	Additions	Deductions	Balance June 30, 2014	Due Within One Year	Noncurrent Liabilities
Governmental activities						
Compensated absences payable	$ 4,135,101	$ 1,290,940	$ 1,670,152	$ 3,755,889	$ 5,346	$ 3,750,543
Workers' compensation benefits payable	3,507,477	639,244	445,289	3,701,432	410,534	3,290,898
Certificates of participation and commercial paper outstanding	538,715	1,254,265	1,194,810	598,170	8,565	589,605
Discounts	(122)	—	(46)	(76)	(46)	(30)
Total certificates of participation and commercial paper payable	538,593	1,254,265	1,194,764	598,094	8,519	589,575
Capital lease obligations	236,305 *	80,022	56,239	260,088	59,896	200,192
General obligation bonds outstanding	79,688,445	5,905,370	5,297,945	80,295,870	3,827,670	76,468,200
Premiums	2,657,766	505,026	182,315	2,980,477	161,390	2,819,087
Total general obligation bonds payable	82,346,211	6,410,396	5,480,260	83,276,347	3,989,060	79,287,287
Revenue bonds outstanding	18,590,437 *	2,293,720	2,945,896	17,938,261	580,591	17,357,670
Accreted interest	383,862	40,564	—	424,426	—	424,426
Premiums	519,230	184,986	147,748	556,468	66,666	489,802
Discounts	(2,003)	—	(291)	(1,712)	(292)	(1,420)
Total revenue bonds payable	19,491,526	2,519,270	3,093,353	18,917,443	646,965	18,270,478
Mandated cost claims payable	6,750,849	1,154,062	54,259	7,850,652	135,473	7,715,179
Net other postemployment benefits obligation	15,559,232	4,871,902	1,814,275	18,616,859	—	18,616,859
Net pension obligation	3,278,774	207,749	248,738	3,237,785	—	3,237,785
Other long-term obligations:						
Proposition 98 funding guarantee	1,914,064	17,523	2,505	1,929,082	409,614	1,519,468
Pollution remediation obligations	1,009,216	151,527	78,777	1,081,966	81,055	1,000,911
Other	140,198	22,132	59,431	102,899	60,645	42,254
Total other long-term obligations	3,063,478	191,182	140,713	3,113,947	551,314	2,562,633
Total governmental activities	**$ 138,907,546**	**$ 18,619,032**	**$ 14,198,042**	**$ 143,328,536**	**$ 5,807,107**	**$ 137,521,429**
Business-type activities						
Loans payable	$ 8,585,318	$ —	$ 951,927	$ 7,633,391	$ —	$ 7,633,391
Lottery prizes and annuities	1,198,904	3,624,432	3,588,896	1,234,440	551,260	683,180
Compensated absences payable	314,133	98,069	90,856	321,346	138,487	182,859
Workers' compensation benefits payable	2,078	460	—	2,538	—	2,538
Certificates of participation and commercial paper outstanding	77,560	262,036	134,949	204,647	153,541	51,106
Capital lease obligations	1,145,637	177,398	72,761	1,250,274	70,042	1,180,232
General obligation bonds outstanding	888,280	—	212,800	675,480	56,875	618,605
Discounts	(1,227)	—	61	(1,288)	—	(1,288)
Total general obligation bonds payable	887,053	—	212,861	674,192	56,875	617,317
Revenue bonds outstanding	13,080,438 *	470,300	1,216,405	12,334,333	842,670	11,491,663
Premiums	721,576	60,851	124,717	657,710	77,339	580,371
Discounts	(358)	—	1,769	(2,127)	—	(2,127)
Total revenue bonds payable	13,801,656	531,151	1,342,891	12,989,916	920,009	12,069,907
Net other postemployment benefits obligation	510,229	187,723	69,530	628,422	—	628,422
Other long-term obligations	482,571	37,540	21,918	498,193	40,685	457,508
Total business-type activities	**$ 27,005,139**	**$ 4,918,809**	**$ 6,486,589**	**$ 25,437,359**	**$ 1,930,899**	**$ 23,506,460**

* Restated

NOTE 11: CERTIFICATES OF PARTICIPATION

Table 12 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 12

Schedule of Debt Service Requirements for Certificates of Participation – Primary Government
(amounts in thousands)

Year Ending June 30	Principal	Interest	Total
2015	$ 8,565	$ 1,075	$ 9,640
2016	11,915	625	12,540
Total	**$ 20,480**	**$ 1,700**	**$ 22,180**

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 “Letter of Credit” agreements for the general obligation commercial paper program authorize the issuance of notes in an aggregate principal amount not to exceed $1.7 billion. As of June 30, 2014, the general obligation commercial paper program had $578 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, 2014, the enterprise fund commercial paper program had $36 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, 2014, $169 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 billion commercial paper program with tax-exempt and taxable components. At June 30, 2014, outstanding taxable commercial paper totaled $994 million. 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 total $262 million for general corporate purposes for the period ending June 30, 2014. For more information regarding the commercial paper program and other long-term borrowings of the University, refer to its separately issued financial report for fiscal year 2013-14 on its website at www.ucop.edu.

NOTE 13: LEASES

The aggregate amount of lease commitments for facilities and equipment of the primary government in effect as of June 30, 2014, was approximately $3.1 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. Operating lease expenditures for the year ended June 30, 2014, amounted to approximately $298 million for governmental activities and $29 million for business-type activities. 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 net minimum capital lease payments for the primary government is $1.5 billion. Note 10, Long-term Obligations, reports current additions and deductions for these capital lease obligations. Included in the capital lease commitments are lease-purchase agreements, amounting to a present value of net minimum lease payments of $1.1 billion that the California State University, reported as an enterprise fund, has entered into with the State Public Works Board (SPWB), reported as an internal service fund. This amount represents 74.9% of the total present value of minimum capital lease payments of the primary government. Also included in the capital lease commitments are lease-purchase agreements to acquire equipment. Total assets related to capital leases have a net carrying value of $432 million for governmental activities and $808 million for business-type activities.

The capital lease commitments do not include $6.0 billion in lease-purchase agreements with the SPWB and $271 million in lease purchase agreements with building authorities that are blended component units. The SPWB and the 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 as governmental activities in the government-wide financial statements. Accordingly, the lease receivables and capital lease obligations associated with these buildings are not included in the government-wide financial statements.

The University of California, a discretely presented component unit, leases land, buildings, and equipment under agreements recorded as operating leases. Additional disclosure for the University’s lease obligations is included in its separately issued financial statements that can be obtained from the University on its website at www.ucop.edu.

Table 13 summarizes future minimum lease commitments of the primary government.

Table 13

Schedule of Future Minimum Lease Commitments – Primary Government
(amounts in thousands)

	Governmental Activities		Business-type Activities		
Year Ending June 30	**Operating Leases**	**Capital Leases**	**Operating Leases**	**Capital Leases**	**Total**
2015	$ 239,809	$ 65,304	$ 25,216	$ 132,459	$ 462,788
2016	175,419	51,409	18,949	132,086	377,863
2017	124,533	39,989	17,861	127,679	310,062
2018	60,848	29,047	14,598	127,196	231,689
2019	29,916	26,019	11,107	103,219	170,261
2020-2024	46,904	53,337	32,165	439,038	571,444
2025-2029	23,990	4,369	16,373	385,756	430,488
2030-2034	18,555	4,531	9,941	347,503	380,530
2035-2039	101	3,833	3,031	149,000	155,965
2040-2044	101	1,519	968	4,775	7,363
2045-2049	101	—	397	—	498
2050-2054	101	—	178	—	279
2055-2059	74	—	32	—	106
2060-2064	5	—	32	—	37
2065-2069	—	—	32	—	32
2070-2074	—	—	32	—	32
2075-2079	—	—	32	—	32
2080-2084	—	—	32	—	32
2085-2089	—	—	32	—	32
2090-2094	—	—	32	—	32
2095-2099	—	—	33	—	33
Total minimum lease payments	**$ 720,457**	**279,357**	**$ 151,073**	**1,948,711**	**$ 3,099,598**
Less: amount representing interest		19,269		698,437	
Present value of net minimum lease payments		**260,088**		**1,250,274**	
Less: current portion		59,896		70,042	
Capital lease obligation, net of current portion		**$ 200,192**		**$ 1,180,232**	

NOTE 14: COMMITMENTS

As of June 30, 2014, the primary government had commitments of $7.7 billion for certain highway construction and high-speed rail projects. These commitments are not included as a liability in the Federal Fund or the Transportation Fund because future expenditures related to these commitments will be reimbursed with $1.0 billion from local governments and $6.7 billion from proceeds of approved federal grants. The primary government also had other commitments for which the future expenditures will be reimbursed by the proceeds of approved federal grants of $569 million for various education programs, $382 million for terrorism prevention and disaster-preparedness response projects, $286 million for services under the workforce development program, $160 million for services provided under various public health programs, $152 million for community service programs, $69 million for services provided under the welfare program, $30 million for services provided under the rehabilitation program, and $22 million for services provided under the child support program.

The primary government had other commitments, totaling $8.6 billion, that are not included as a liability on the Balance Sheet or the Statement of Net Position. The $8.6 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 $8.6 billion in commitments includes $260 million in undisbursed loan commitments for various programs aimed at providing housing and emergency shelter to persons in need and $1.0 billion for undisbursed loan commitments to qualified agencies for clean water projects. In addition, the $8.6 billion in commitments includes $73 million in long-term contracts to purchase power. These contracts qualify for the Normal Purchase Normal Sale exception under GASB Statement No. 53 and, therefore, are not included on the Statement of Net Position of the Electric Power Fund nor disclosed as derivative financial instruments.

The $8.6 billion in commitments also includes contracts of $958 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. The primary government had commitments of $265 million for California State University (CSU) construction projects. CSU participates in forward-purchase contracts of natural gas and electricity. As of June 30, 2014, CSU's obligation under these special purchase arrangements requires it to purchase at fixed prices an estimated total of $21 million in electricity through December 2015 and $23 million in natural gas through June 2017. The primary government also had commitments of $18 million to veterans for the purchase of properties under contracts of sale. The California State Lottery Commission had commitments of $438 million for gaming and telecommunication systems and services. 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, 2014, the primary government encumbered expenditures of $784 million for the General Fund, $3.1 billion for the Transportation Fund, $1.1 billion for the Environmental and Natural Resources Fund, and $658 million for the nonmajor governmental funds. See Note 2A, Budgeting and Budgetary Control, for an explanation of the primary government's policy concerning encumbrances.

As of June 30, 2014, the discretely presented and fiduciary component units had other commitments that were not included as liabilities on the corresponding Statement of Net Position. Additional disclosure for the University of California's commitments is included in its separately issued financial statements, which can be obtained from the University on its website at www.ucop.edu. Additional disclosure for the California Housing Finance Agency's (CalHFA) commitments is included in its separately issued financial statements, which can be obtained from the CalHFA on its website at www.CalHFA.ca.gov. Additional disclosure for the California Public Employees' Retirement System's (CalPERS) commitments is included in its separately issued financial statements, which can be obtained from CalPERS on its website at www.CalPERS.ca.gov.

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, 2014, the State had $80.3 billion in outstanding general obligation bonds related to governmental activities and $675 million related to business-type activities. In addition, $26.5 billion of long-term general obligation bonds had been authorized but not issued, of which $25.8 billion is related to governmental activities and $706 million is related to business-type activities. The total amount authorized but not issued includes $17 billion authorized by the applicable finance committees for issuance in the form of commercial paper notes. Of this amount, $578 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, 2014, the State had $3.0 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 $498 million in weekly or monthly rate bonds without credit enhancement. During fiscal year 2013-14, the State issued $300 million of variable-rate general obligation 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 Index Floating Rate Bonds are determined by the Securities Industry and Financial Markets Association (SIFMA) Index rate or percentage of the London Interbank Offered Rate (LIBOR) then in effect plus a pre-determined spread. 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 that 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 2013-14.

The letters of credit for the Series 2003 variable-rate bonds have expiration dates of October 16, 2015; November 10, 2016; December 16, 2016; and April 12, 2017. The letters of credit for the Series 2004 variable-rate bonds have expiration dates of April 6, 2015; October 15, 2015; and November 10, 2016. The letters of credit for the Series 2005 variable-rate bonds have expiration dates of November 4, 2016; November 10, 2016; December 16, 2016; February 17, 2017; and April 11, 2017. The Series 2012A and 2013 C, D and E Index Floating Rate Bonds have mandatory purchase dates on May 1, 2015, December 1, 2016, December 1, 2017, or December 3, 2018. The Series 2012B SIFMA Index Floating Rate Bonds have final maturities from 2017 to 2020.

Based on the schedules provided in the Official Statements, any required 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: 2015-16 through 2033-34, and 2039-40. 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, 2014, the State had $4.6 billion in Economic Recovery Bonds outstanding. Of the $4.6 billion outstanding, bonds totaling $110 million are variable-rate bonds in the daily-rate mode and $500 million are mandatory tender bonds. The interest rates associated with the daily-rate bonds are determined by the remarketing agent 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 a letter of credit. The State reimburses the credit provider for any amounts paid. The expiration date for the letter of credit is December 12, 2014.

C. Mandatory Tender Bonds

Of the $4.6 billion in outstanding Economic Recovery Bonds, $500 million were mandatory tender bonds and had an interest rate reset date of July 1, 2014. On that date, the bonds became 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 could have remarketed or redeemed these bonds. The State redeemed these bonds on July 1, 2014. The debt service requirements in Table 14 include the effect of this redemption in fiscal year ended June 30, 2015.

As of June 30, 2014, the State had $850 million in outstanding general obligation mandatory tender bonds, including $450 million with a fixed interest rate and $400 million with an index floating rate (discussed in Section A). On their respective mandatory tender dates, these bonds are subject to mandatory tender for purchase at a price equal to 100% of the principal amount, plus accrued interest, without premium, unless the bonds have been called for redemption on or prior to that day. These bonds have mandatory tender dates on May 1, 2015; December 1, 2016; December 1, 2017; and December 3, 2018. In the event of an unsuccessful remarketing of all the outstanding bonds on the scheduled mandatory tender dates, the bonds will enter into a delayed remarketing period and accrue interest at a higher effective interest rate, gradually increasing on a stepped basis until they are remarketed, redeemed, or paid at maturity. Current state laws limit interest rates to 11% per annum. With respect to $100 million of the Index Floating Rate Bonds, beginning six months after the scheduled mandatory tender date, the bonds will be subject to special mandatory redemption in 20 equal quarterly installments until they are remarketed or refunded.

D. Build America Bonds

As of June 30, 2014, 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 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. Subsequent federal legislation reduced the Build America Bonds subsidy by 8.7% for the federal fiscal year ending September 30, 2013 and 7.2% for the federal fiscal year ending September 30, 2014. The cash payment does not constitute a full faith and credit guarantee of the federal government, but is required to be paid by the United States Treasury under ARRA. The subsidy payments are deposited into the state treasury.

E. Debt Service Requirements

Table 14 shows the debt service requirements for all general obligation bonds as of June 30, 2014. The estimated debt service requirements for the $3 billion variable-rate general obligation bonds and the $110 million variable-rate Economic Recovery Bonds are calculated using the actual interest rates in effect on June 30, 2014. For mandatory tender bonds, the debt service requirements shown in Table 14 are based on the assumption that the interest rate will remain in effect until the applicable reset dates and that the bonds will be fully redeemed on their scheduled maturity dates. 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 14

Schedule of Debt Service Requirements for General Obligation Bonds
(amounts in thousands)

	Governmental Activities			Business-type Activities		
Year Ending June 30	**Principal**	**Interest**	**Total**	**Principal**	**Interest**	**Total**
2015	$ 3,827,670	$ 4,117,916	$ 7,945,586	$ 56,875	$ 29,345	$ 86,220
2016	3,174,350	3,962,830	7,137,180	75,620	26,610	102,230
2017	2,759,560	3,829,238	6,588,798	61,895	23,909	85,804
2018	2,741,100	3,709,530	6,450,630	39,600	21,708	61,308
2019	3,323,295	3,574,474	6,897,769	26,800	20,220	47,020
2020 - 2024	14,025,615	15,563,258	29,588,873	75,475	85,212	160,687
2025 - 2029	12,781,005	12,597,373	25,378,378	55,265	74,625	129,890
2030 - 2034	14,788,660	9,438,265	24,226,925	157,965	45,129	203,094
2035 - 2039	15,559,405	5,130,596	20,690,001	91,605	17,834	109,439
2040 - 2044	7,315,210	942,934	8,258,144	34,380	1,600	35,980
Total	**$ 80,295,870**	**$ 62,866,414**	**$ 143,162,284**	**$ 675,480**	**$ 346,192**	**$ 1,021,672**

F. General Obligation Bond Defeasances

1. Current Year

On September 10, 2013, the primary government issued $559 million in general obligation bonds to current refund $586 million of outstanding general obligation bonds maturing in 2015 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 $80 million and resulted in an economic gain of $56 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 4.09% per year over the life of the new bonds.

On November 5, 2013, the primary government issued $723 million in general obligation bonds to current refund $782 million of outstanding general obligation bonds maturing in 2015 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 $122 million and resulted in an economic gain of $87 million, discounted at 3.90% per year over the life of the new bonds.

On March 27, 2014, the primary government issued $795 million in general obligation bonds to current and advance refund $880 million of outstanding general obligation bonds maturing in 2014 to 2034. 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 $161 million and resulted in an economic gain of $117 million, discounted at 3.43% 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, 2014, the outstanding balance of general obligation bonds defeased in prior years was approximately $325 million.

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 $141 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 finance 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, as authorized by state law, has issued asset-backed bonds to purchase 100% of 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 $18.4 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 $377 million, while Tobacco Settlement Revenue and interest earned totaled $356 million. These bonds are included in the governmental activities column of the government-wide Statement of Net Position.

Under state law, State Public Works Board (SPWB), an agency that accounts for its activity in the Public Buildings Construction Fund, an internal service fund, and 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 Public Buildings Construction Fund and building authorities. The General Fund 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, financing of electric power purchases for resale to utility customers, state university campuses, 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. For more information regarding revenue bonds, current year defeasances, and outstanding defeasances of the University, refer to its separately issued financial report for fiscal year 2013-14 on its website at www.ucop.edu.

Under state law, the California Housing Finance Agency (CalHFA) issues fixed-rate 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 Securities Industry and Financial Markets Association (SIFMA) or the London Interbank Offered Rate (LIBOR) and is reset periodically. CalHFA issues both federally taxable and tax-exempt bonds. The bonds issued by CalHFA are payable solely from and collateralized by revenues and other pledged assets. For more information regarding revenue bonds, current year defeasances, and outstanding defeasances of the CalHFA, refer to its separately issued financial report for fiscal year 2013-14 on its website at www.CalHFA.ca.gov.

Table 15 shows outstanding revenue bonds of the primary government and the discretely presented component units.

Table 15

Schedule of Revenue Bonds Payable
June 30, 2014
(amounts in thousands)

Primary government	
Governmental activities	
Transportation Fund	$ 137,659
Public Buildings Construction Fund	11,323,687
Nonmajor governmental funds:	
Golden State Tobacco Securitization Corporation Fund	7,167,103
Building authorities	288,994
Total governmental activities	**18,917,443**
Business-type activities	
Electric Power Fund	6,249,000
Water Resources Fund	2,647,814
California State University	3,663,116
Nonmajor enterprise funds	429,986
Total business-type activities	**12,989,916**
Total primary government	**31,907,359**
Discretely presented component units	
University of California	16,561,052
California Housing Finance Agency	3,596,347
Nonmajor component units	246,756
Total discretely presented component units	**20,404,155**
Total revenue bonds payable	**$ 52,311,514**

Table 16 shows the debt service requirements for fixed-rate and variable-rate bonds. It excludes unamortized premiums and discounts that are included in Table 15.

Table 16

Schedule of Debt Service Requirements for Revenue Bonds
(amounts in thousands)

	Primary Government				Discretely Presented Component Units	
	Governmental Activities		Business-type Activities			
Year Ending June 30	Principal	Interest	Principal	Interest	Principal	Interest *
2015	$ 580,591	$ 894,061	$ 842,670	$ 581,159	$ 388,475	$ 909,744
2016	545,951	870,953	922,715	543,053	452,003	881,647
2017	610,761	844,555	951,265	501,123	449,336	859,986
2018	649,146	813,396	985,515	456,399	435,674	838,259
2019	628,196	776,337	1,015,355	410,747	441,415	817,289
2020-2024	3,111,706	3,499,513	3,979,498	1,317,112	2,896,410	3,699,230
2025-2029	3,136,099	2,920,227	1,564,505	704,171	3,040,940	2,921,805
2030-2034	3,167,515	1,982,982	1,128,675	367,114	3,463,482	2,157,148
2035-2039	2,592,035	1,156,841	722,470	137,853	3,342,858	1,357,680
2040-2044	1,904,530	820,802	217,270	20,047	2,729,054	674,677
2045-2049	1,436,157	3,507,027	4,395	98	1,187,130	321,722
2050-2112	—	—	—	—	881,225	2,633,368
Total	**$ 18,362,687**	**$ 18,086,694**	**$ 12,334,333**	**$ 5,038,876**	**$ 19,708,002**	**$ 18,072,555**

* Includes interest on variable-rate bonds based on rates in effect on June 30, 2014.

D. Revenue Bond Defeasances

1. Current Year – Governmental Activities

In September 2013, the SPWB and the University of California entered into a series of restructuring agreements, in which bonds held by the SPWB for University projects were refunded by revenue bonds issued by the University. Additionally, on October 2, 2013, the SPWB entered into an escrow agreement with the State Treasurer. The cash transferred to the State Treasurer, along with deposits from the University from the refunding bonds, will be used to make principal and interest payments for the refunded debt, resulting in the legal defeasance of $2.2 billion in bonds payable. The restructuring was authorized in the 2013-14 budget.

The SPWB and the University also executed termination agreements relating to all leases relating to the defeased and redeemed bonds. As a result, all the net investment in direct financing leases, construction work in progress, and bonds payable related to these leases were removed from the Public Buildings Construction Fund Statement of Net Position. The net effect of these transactions was a loss of $55 million, as shown in the Public Buildings Construction Fund's Statement of Revenues, Expenses, and Changes in Fund Net Position.

2. Current Year – Business-type Activities

As discussed under governmental activities above, the restructuring agreement between the SPWB and the University and the escrow agreement between the SPWB and the State Treasurer resulted in the legal defeasance of all outstanding bonds reported in the High Technology Education Fund, a nonmajor enterprise fund. In addition, the related lease receivable was terminated and the High Technology Education Fund's remaining assets were transferred to the escrow account with the State Treasurer and the fund was dissolved. The net effect of the restructure and refunding was a loss of $27 million, as shown in the enterprise funds' Combining Statement of Revenues, Expenses, and Changes in Fund Net Position.

In August 2013, California State University issued $309 million in systemwide revenue refunding bonds to partially defease certain outstanding systemwide revenue bonds. A portion of the proceeds was deposited into an escrow account to provide for all future debt service payments on the refunded bonds. As a result, the bonds are considered defeased and the liability for these bonds has been removed from the financial statements. This refunding will decrease debt service payments by $22 million over the life of the bonds and will result in an economic gain of $19 million for the refunded bonds.

3. 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, 2014, the outstanding balance of revenue bonds defeased in prior years was $632 million for business-type activities. All previously defeased revenue bonds for governmental activities were redeemed by June 30, 2014.

NOTE 17: SERVICE CONCESSION ARRANGEMENTS

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. The amount of the primary government's service concession arrangements can be found in Note 21, Deferred Outflows and Deferred Inflows of Resources.

The University of California, a discretely presented component unit, has entered into service concession arrangements with third parties for student housing and certain other faculty and student services. Payments received or to be received by the University from service concession arrangements are reported as deferred inflows of resources. Additional information on the University's service concession arrangements can be found in the University's separately issued financial statements on its website at www.ucop.edu.

NOTE 18: INTERFUND BALANCES AND TRANSFERS

A. Interfund Balances

Short-term interfund receivables and payables result 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 17 shows the amounts due from and due to other funds.

Table 17

Schedule of Due From Other Funds and Due To Other Funds
June 30, 2014
(amounts in thousands)

Due From	Due To: General Fund	Transportation Fund	Environmental and Natural Resources Fund	Nonmajor Governmental Fund	Electric Power Fund
Governmental funds					
General Fund	$ —	$ —	$ —	$ 571,090	$ —
Federal Fund	632,163	919,991	37,392	248,038	—
Transportation Fund	19,052	—	—	34,836	—
Environmental and Natural Resources Fund	21,278	6,476	—	5	—
Nonmajor governmental funds	768,555	30,274	7,836	18,272	—
Total governmental funds	**1,441,048**	**956,741**	**45,228**	**872,241**	**—**
Enterprise funds					
Water Resources Fund	—	—	—	—	—
State Lottery Fund	137	155	—	314,620	—
Unemployment Programs Fund	59,896	—	—	—	—
Nonmajor enterprise funds	1,107	—	151	208	—
Total enterprise funds	**61,140**	**155**	**151**	**314,828**	**—**
Internal service funds	**8,707**	**13,779**	**2,861**	**19,126**	**3,000**
Total due from other funds	**$ 1,510,895**	**$ 970,675**	**$ 48,240**	**$ 1,206,195**	**$ 3,000**

Due From	Due To: Water Resources Fund	State Lottery Fund	Unemployment Programs Fund	California State University Fund	Nonmajor Enterprise Funds	Internal Service Funds	Fiduciary Funds	Total Due to Other Funds
Governmental funds								
General Fund	$ —	$ —	$ —	$ 257	$ —	$ 285,469	$ 8,416,873	$ 9,273,689
Federal Fund	—	—	36,689	—	169	10,870	10,952,460	12,837,772
Transportation Fund	—	—	—	—	—	12,660	54,090	120,638
Environmental and Natural Resources Fund	—	—	—	—	21	19,349	109	47,238
Nonmajor governmental funds	—	—	—	382	75	17,424	1,923,001	2,765,819
Total governmental funds	**—**	**—**	**36,689**	**639**	**265**	**345,772**	**21,346,533**	**25,045,156**
Enterprise funds								
Water Resources Fund	—	—	—	—	—	47,681	—	47,681
State Lottery Fund	—	—	—	—	—	—	—	314,912
Unemployment Programs Fund	—	—	—	—	—	—	—	59,896
Nonmajor enterprise funds	—	—	—	—	—	69	17	1,552
Total enterprise funds	**—**	**—**	**—**	**—**	**—**	**47,750**	**17**	**424,041**
Internal service funds	**1,129**	**295**	**1,827**	**466**	**407**	**48,400**	**640**	**100,637**
Total due from other funds	**$ 1,129**	**$ 295**	**$ 38,516**	**$ 1,105**	**$ 672**	**$ 441,922**	**$ 21,347,190**	**$ 25,569,834**

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 17, annual enacted budgets provide for long-term loans from many of the State's special funds—mainly the Transportation Fund, Environmental and Natural Resources Fund, and nonmajor governmental funds—to the General Fund. The $3.3 billion in Transportation Fund loans payable from the General Fund also includes $1.0 billion in deferred Proposition 42 transfers for traffic congestion relief and other direct loans from the Traffic Congestion Relief Program.

Table 18 shows the primary government's interfund receivables and payables.

Table 18

Schedule of Interfund Receivables and Payables
June 30, 2014
(amounts in thousands)

	Interfund Payables								
Interfund Receivables	**General Fund**	**Transportation Fund**	**Environmental and Natural Resources Funds**	**Nonmajor Governmental Fund**	**Water Resources Fund**	**Unemployment Programs Fund**	**Nonmajor Enterprise Funds**	**Internal Service Funds**	**Total**
Governmental funds									
General Fund	$ —	$ 3,337,281	$ 829,227	$ 1,332,548	$ —	$ 611,690	$ 5,600	$ 7,191	$ 6,123,537
Transportation Fund	—	—	—	—	—	—	—	2,316	2,316
Environmental and Natural Resources Fund	—	25,000	—	—	—	—	—	—	25,000
Nonmajor governmental funds	8,584	—	—	—	—	—	—	—	8,584
Total governmental funds	**8,584**	**3,362,281**	**829,227**	**1,332,548**	**—**	**611,690**	**5,600**	**9,507**	**6,159,437**
Internal service funds	**40,650**	**—**	**—**	**172**	**91,517**	**—**	**—**	**6,267**	**138,606**
Total primary government	**$ 49,234**	**$ 3,362,281**	**$ 829,227**	**$ 1,332,720**	**$ 91,517**	**$ 611,690**	**$ 5,600**	**$ 15,774**	**$ 6,298,043**

The amounts 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 19 shows the amounts due from the primary government and due to component units.

Table 19

Schedule of Due from Primary Government and Due to Component Units
June 30, 2014
(amounts in thousands)

	Due To Component Units		
Due From	**University of California**	**Nonmajor Component Units**	**Total**
Governmental funds			
General Fund	$ 205,129	$ 1,212	$ 206,341
Total governmental funds	**205,129**	**1,212**	**206,341**
Total primary government	**$ 205,129**	**$ 1,212**	**$ 206,341**

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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 $2.3 billion to the California State University, an enterprise fund. The General Fund also transferred $1.6 billion to nonmajor governmental funds mainly for support of trial courts and state and local government health care programs. The Transportation Fund transferred $1.0 billion of weight fee revenues to the Transportation Debt Service Fund, a nonmajor governmental fund, for reimbursement of debt service costs. The Federal Fund transferred $631 million to the General Fund for administration of the Unemployment Insurance Program.

Table 20 shows interfund transfers of the primary government.

Table 20

Schedule of Interfund Transfers
June 30, 2014
(amounts in thousands)

	Transferred To						
Transferred From	**General Fund**	**Transportation Fund**	**Environmental and Natural Resources Funds**	**Nonmajor Governmental Funds**	**California State University Fund**	**Internal Service Funds**	**Total**
Governmental funds							
General Fund	$ —	$ —	$ 28,853	$ 1,577,442	$ 2,302,858	$ 6,394	$ 3,915,547
Federal Fund	631,194	—	173,568	17,970	—	—	822,732
Transportation Fund	74,430	—	12,903	1,071,822	—	—	1,159,155
Environmental and Natural Resources Fund	8,849	—	—	13,814	—	—	22,663
Nonmajor governmental funds	273,021	25	24,775	86,129	—	—	383,950
Total governmental funds	**987,494**	**25**	**240,099**	**2,767,177**	**2,302,858**	**6,394**	**6,304,047**
Nonmajor enterprise funds	**199**	—	—	—	—	**6,649**	**6,848**
Internal service funds	**8,766**	—	—	**37,490**	—	**63,614**	**109,870**
Total primary government	**$ 996,459**	**$ 25**	**$ 240,099**	**$ 2,804,667**	**$ 2,302,858**	**$ 76,657**	**$ 6,420,765**

NOTE 19: FUND BALANCES, FUND DEFICITS, AND ENDOWMENTS

A. Fund Balances

Table 21 shows the composition of the governmental fund balances at June 30, 2014.

Table 21

Schedule of Fund Balances by Function
June 30, 2014
(amounts in thousands)

Year Ending June 30	General Fund	Federal Fund	Transportation Fund	Environmental and Natural Resources Fund	Nonmajor Governmental Funds
Nonspendable					
Long-term interfund receivables	$ 49,234	$ —	$ —	$ —	$ —
Long-term loans receivable	79,375	—	—	—	—
Other	—	—	—	—	27,260
Total nonspendable	**128,609**	**—**	**—**	**—**	**27,260**
Restricted					
General government	6,113	—	—	14,222	3,639,099
Education	284,204	296	4,824	—	852,134
Health and human services	101,301	257	—	1,365,893	2,295,229
Resources	—	9,217	—	4,838,324	98,547
State and consumer services	2,628	—	224,207	55,432	518,981
Business and transportation	—	201,804	7,169,827	47,236	2,931,637
Correctional programs	—	—	—	—	1,927
Total restricted	**394,246**	**211,574**	**7,398,858**	**6,321,107**	**10,337,554**
Committed					
General government	13,999	—	—	21,623	334,549
Education	3,023	—	—	—	30,777
Health and human services	4,445	—	1,430	—	269,511
Resources	455	—	10	1,275,839	740,043
State and consumer services	—	—	—	23,649	57,697
Business and transportation	—	—	65,926	—	87,123
Correctional programs	103,198	—	—	—	6,570
Total committed	**125,120**	**—**	**67,366**	**1,321,111**	**1,526,270**
Assigned – General government	**—**	**—**	**—**	**—**	**18,857**
Unassigned	**(8,092,571)**	**—**	**—**	**(11,664)**	**(8,481)**
Total fund balances (deficit)	**$ (7,444,596)**	**$ 211,574**	**$ 7,466,224**	**$ 7,630,554**	**$ 11,901,460**

B. Fund Deficits

Table 22 shows the funds that had deficit balances at June 30, 2014.

Table 22

Schedule of Fund Deficits
June 30, 2014
(amounts in thousands)

	Governmental Funds	Internal Service Funds	Enterprise Funds
General Fund	$ 7,444,596	$ —	$ —
Architecture Revolving Fund	—	26,660	—
Service Revolving Fund	—	172,160	—
Water Resources Fund	—	51,390	—
Unemployment Programs Fund	—	—	2,657,890
Total fund deficits	**$ 7,444,596**	**$ 250,210**	**$ 2,657,890**

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, 2014, the total value of restricted endowments and gifts was $14.2 billion and unrestricted endowments and gifts was $2.1 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 $2.1 billion at June 30, 2014. 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 $946 million and $9 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 $3.7 billion as of June 30, 2014. 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 $5.2 billion is discounted to $3.7 billion using a 3.5% interest rate. Of the total, $410 million is a current liability, of which $273 million is included in the General Fund, $134 million in the special revenue funds, and $3 million in the internal service funds. The remaining $3.3 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 23 shows the changes in the self-insurance claims liability for the primary government and the discretely presented component units.

Table 23

Schedule of Changes in Self-Insurance Claims
Year Ended June 30
(amounts in thousands)

	Primary Government		Discretely Presented Component Unit University of California	
	2014	2013	2014	2013
Unpaid claims, beginning	$ 3,509,555	$ 3,204,635	$ 631,798	$ 599,176
Incurred claims	639,704	754,641	467,191	421,832
Claim payments	(445,289)	(449,721)	(454,411)	(389,210)
Unpaid claims, ending	**$ 3,703,970**	**$ 3,509,555**	**$ 644,578**	**$ 631,798**

NOTE 21: DEFERRED OUTFLOWS AND DEFERRED INFLOWS OF RESOURCES

In the fund financial statements, governmental funds reported deferred inflows of resources of $2.0 billion because this amount represents revenues that are earned and measurable, but not available within 12 months of the end of the reporting period.

Table 24 shows the detail of the deferred outflows of resources and deferred inflows of resources reported in the government-wide Statement of Net Position.

Table 24

Schedule of Deferred Outflows and Deferred Inflows of Resources
June 30, 2014
(amounts in thousands)

	Primary Government			
	Governmental Activities	Business-Type Activities	Total	Component Units
Deferred outflows of resources:				
Loss on refunding of debt	$ 986,477	$ 242,167	$ 1,228,644	$ 346,480
Decrease in fair value of hedging derivatives	—	—	—	100,282
Net pension liability	—	—	—	3,290,476
Total deferred outflows of resources	**986,477**	**242,167**	**1,228,644**	**3,737,238**
Deferred inflows of resources:				
Gain on refunding of debt	106,426	—	106,426	1,561
Service concession arrangements	64,376	—	64,376	30,701
Net pension liability	—	—	—	7,077,861
Other deferred inflows	—	822,886	822,886	—
Total deferred inflows of resources	**$ 170,802**	**$ 822,886**	**$ 993,688**	**$ 7,110,123**

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 by the credit of private and public entities and is administered by trustees independent of the State. As of June 30, 2014, these component units had approximately $4.3 billion of debt outstanding, which is not debt of the State.

The conduit obligations outstanding for the California Housing Finance Agency, a major component unit, amounted to $341 million, which is not debt of the State.

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, 2014; legal proceedings that were in progress as of June 30, 2014, and were settled or decided against the primary government as of March 19, 2015; and legal proceedings having a high probability of resulting in a decision against the primary government as of March 19, 2015, 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). Plaintiffs allege class action relief, declaratory relief, and seek attorney fees based on alleged violations to the state and federal constitutions. They seek certification of two classes of allegedly similarly situated LLCs and unspecified amount of refunds on behalf of the LLC classes, alleged to be in excess of 50,000 members. Briefing of the appeal was completed on December 17, 2014, and the parties are waiting for notice of oral argument.

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.

The primary government is a defendant in a case, *Harley-Davidson, Inc. and Subsidiaries v. Franchise Tax Board* 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. The plaintiff claims, among other things, that section 25101.15 unlawfully discriminates against them because it allows intrastate unitary businesses the option to report on either a separate or combined basis, and that they should be allowed to report the income of their business entities on a separate basis. The Franchise Tax Board prevailed in the trial court, and the case is fully briefed and awaiting oral argument on appeal. If section 25101.15 were invalidated, the dollar amount of potential refunds for past years is impossible to estimate, but could be substantial. The potential loss of future revenue is also impossible to estimate, but could be mitigated by legislative action.

The primary government is a defendant in another case, *Abercrombie & Fitch Co. & Subsidiaries v. Franchise Tax Board*, regarding constitutionality of Revenue and Taxation Code section 25101.15. The parties' cross-motions for summary judgment were heard on January 8, 2015. After that hearing, the superior court stayed further proceedings pending an appellate decision in the *Harley-Davidson* case. An estimate of potential loss is not possible.

The primary government is the defendant in a consolidated case, *The Gillette Company & Subsidiaries v. Franchise Tax Board*, formerly 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. Multistate taxpayers claim that amended Revenue and Taxation Code section 25128 is invalid because California failed to repeal the entire Multistate Tax Compact. The case is fully briefed and before the California Supreme Court awaiting a hearing date. Taxpayers seek a combined refund totaling approximately $34 million (plus statutory interest) for taxable years 1993 through 2005. If amended section 25128 is found invalid, the potential total refunds to other taxpayers are impossible to estimate with precision, but could exceed $750 million.

The primary government is the defendant in the following cases: *Anthem Blue Cross v. David Maxwell-Jolly, et al.*; *Molina Family Health Plan v. DHCS*; *Health Net of California, Inc. v. DHCS*; and *Santa Clara Family Health Plan v. David Maxwell-Jolly et al.* regarding application of budget reduction factors to managed-care capitated rates. These cases have been settled on a contingent basis based on the plans' profitability. The estimated combined potential total loss is more than $400 million based on four separate settlement agreements that were entered into in 2013 and 2014.

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, California Housing Finance Agency (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, 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.

Both CalPERS and CalSTRS retirement systems implemented the GASB Statement No. 67, *Financial Reporting for Pension Plans—an amendment of GASB Statement No. 25*, in their fiscal year 2013-14 financial statements. The objective of GASB 67 is to improve financial reporting by state and local governmental pension plans and the decision-usefulness of reported pension information as well as to increase the transparency, consistency, and comparability of pension information across governments.

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. CalPERS 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 Public Employees' Retirement System on its website at www.CalPERS.ca.gov.

CalPERS uses the accrual basis of accounting. Contributions to the pension trust funds are recognized in the period in which the contributions are due pursuant to legal requirements. 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 on its 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). The PERF is comprised of and reported as three separate entities for accounting purposes. PERF A is comprised of agent multiple-employer plans, which includes State of California and most public agencies' rate plans with more

than 100 active members. PERF B is a cost-sharing multiple-employer plan of school employers consisting of non-teaching and non-certified employees. PERF C is a cost-sharing multiple-employer plan of public agencies plans with generally less than 100 active members. Employers participating in the PERF include the primary government and certain discretely presented component units, 1,517 school employers, and 1,746 public agencies as of June 30, 2014.

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 $36.4 billion at June 30, 2013, as a result of the difference between the actuarial value of assets of $111.0 billion and the actuarial accrued liability of $147.4 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 acts 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, 2013 actuarial valuation, the payroll for primary government employees covered by the PERF for the 2012-13 fiscal year was $15.3 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 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 1.5% to 12.0% of their salaries over the base compensation amount.

All of the primary government employees served by the PERF are now covered by group term life insurance.

Table 25 shows the required employer contribution rates for the primary government.

Table 25

Schedule of Required Employer Contribution Rates for the Primary Government – By Member Category
Year Ended June 30, 2014

	Normal Cost	Unfunded Liability	Group Term Life Benefit	Total Rate
Miscellaneous members				
First tier	8.089 %	12.961 %	0.071 %	21.121 %
Second tier	7.960	12.961	0.071	20.992
Industrial (first and second tier)	10.325	5.357	0.000	15.682
California Highway Patrol	12.895	21.683	0.038	34.616
Peace officers and firefighters	15.489	15.006	0.000	30.495
Other safety members	12.007	5.198	0.000	17.205

For the year ended June 30, 2014, the annual pension cost (APC) and the amount of contributions made by the primary government were each $3.7 billion. The APC and the percentage of APC contributed for the last three years are shown in Table 27. Actuarial valuations of the PERF are performed annually. Information from the last valuation, which was performed as of June 30, 2013, is also shown in Table 27.

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. The DB Program had 1,687 contributing employers at June 30, 2014 and, as of June 30, 2013, had 416,643 active and 182,576 inactive program members and 269,274 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, 2014, was approximately $27.1 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, 2014, the CB Benefit Program had 32 contributing school districts and 35,066 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, 2014, the RB Program had 260 participants.

Funding Policy: DB Program benefits are funded by contributions from members, employers, the primary government, and earnings from investments. Members and employers contribute a percentage of applicable member earnings. The Teachers' Retirement Law governs member rates, employer contribution rates, and primary government contributions.

The DB Program contribution rate for members under the CalSTRS 2% at 60 formula is 8.00% of creditable compensation, while the contribution rate for members under the CalSTRS 2% at 62 formula 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 2013-14. The employer contribution rate is 8.25% of creditable compensation. In fiscal year 2013-14, 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 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 was required to contribute the additional quarterly payments at a contribution rate of 1.024% starting October 1, 2013. As of June 30, 2014, the state contributed $201 million of the $268 million total amount for fiscal year 2013-14.

Assembly Bill 1469 (AB 1469) was passed by the Legislature on June 15, 2014, signed into law on June 24, 2014, and took effect immediately. This bill was designed to address the long-term funding gap of the DB Program. It creates a plan to fully fund the DB Program by 2046 through increases in employer, State, and employee contributions. The portion of the state appropriation under Education Code section 22955(b) that is in addition to the 2.017% has been replaced by section 22955.1(b) in order to fully fund by 2046 the benefits in effect as of 1990.

As a result of AB 1469, the fourth quarterly payment of $67 million was included in an increased first-quarter payment of $94 million for fiscal year 2014-15, which was transferred on July 1, 2014.

Table 26 shows the CalSTRS' state contribution rates effective for fiscal year 2014-15 and beyond.

Table 26

Schedule of CalSTRS' State Contribution Rates

Effective Date	Base Rate	AB 1469 Increase for 1990 Benefit Structure	SBMA[1] Funding	Total State Appropriation to DB Program
July 1, 2014	2.017 %	1.437 %	2.50 %	5.954 %
July 1, 2015	2.017	2.874	2.50	7.391
July 1, 2016	2.017	4.311	2.50	8.828
July 1, 2017 to June 30, 2046	2.017	4.311	2.50	8.828
July 1, 2046 and thereafter	2.017	— [2]	2.50	4.517 [2]

[1] Supplemental Benefits Maintenance Account

[2] AB 1469 gives the CalSTRS board limited authority to adjust state contribution rates from July 1, 2017, through June 30, 2046 in order to eliminate the remaining unfunded actuarial obligation associated with the 1990 benefit structure. The board cannot increase the rate by more than 0.50 percent in a fiscal year, and if there is no unfunded actuarial obligation, the contribution rate imposed to pay for the 1990 benefit structure shall be reduced to 0 percent. Rates in effect prior to July 1, 2014, are reinstated, if necessary, to address any remaining 1990 unfunded actuarial obligation from July 1, 2046, and thereafter.

The DBS Program member contribution rate for service that exceeds one full year during a fiscal year is 8.0% and the employer rate is 8.0%.

For the year ended June 30, 2014, the employer and primary government contributions were approximately $2.3 billion and $1.4 billion, respectively. Actuarial valuations of the DB Program are performed annually. Information from the last valuation is shown in Table 27.

Table 27

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, 2013	June 30, 2013
Actuarial cost method	Individual Entry Age Normal	Entry Age Normal
Amortization method	Level % of Payroll	Level % of Payroll, Open
Remaining amortization period	30 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 - 18.60	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
Year ended 6/30/14	3,749	— [2]
Percent contribution		
Year ended 6/30/11	100 %	47 %
Year ended 6/30/12	100	46
Year ended 6/30/13	100	44
Year ended 6/30/14	100	— [2]
Funding as of last valuation (in millions)		
Actuarial value – assets	$ 110,989	$ 148,614
Actuarial accrued liabilities (AAL) – entry age	147,392	221,861
Unfunded actuarial accrued liability (UAAL)	36,403	73,247
Covered payroll	15,346	27,117
Funded ratio	75.3 %	67.0 %
UAAL as percent of covered payroll	237.2 %	270.1 %

[1] The State is a nonemployer 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 $1.4 billion and $2.3 billion, respectively, for the year ending June 30, 2014. Based on the most recent actuarial valuation, dated June 30, 2013, 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.

[2] CalSTRS implementation of GASB 67 in its 2013-14 fiscal year financial statements makes information related to the annual pension cost and the related percent contribution rates incomparable for financial presentation to prior years displayed.

NOTE 25: POSTEMPLOYMENT HEALTH CARE BENEFITS

State of California Other Postemployment Benefits Plan Description: The primary government provides 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 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), respectively. Employer and retiree contributions are governed by the primary government and can be amended by the primary government through the Legislature. The State 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 separately issued annual financial statements, which can be obtained from CalPERS on its 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. Fifty 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. Seven trial courts (Alameda, Del Norte, Fresno, Mendocino, Modoc, San Benito, and Stanislaus) have no plan. Twenty-one 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 2013-14 fiscal year, approximately 168,200 annuitants were enrolled to receive health benefits and approximately 139,000 annuitants were enrolled to receive dental benefits. As of July 1, 2013, the most recent actuarial valuation date, the trial courts had approximately 4,200 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. 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, as specified in the California Government Code. The State funds the cost of providing health and dental insurance to annuitants primarily on a pay-as-you-go basis, with a modest amount of prefunding for members of Bargaining Units 5, 12, and 16. The maximum 2014 monthly State contribution was $642 for one-party coverage, $1,218 for two-party coverage, and $1,559 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. Twenty-one trial courts fund retirees' benefits on a strictly pay-as-you-go basis. The 2013 monthly contribution rate for the trial courts with single-employer defined benefit plans, the latest year for which contribution information is available, ranged from $8 to $1,134,429, with the average being $119,867. One trial court (Yolo) continuously contributes 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 costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. Sonoma and Marin are on a pay-as-you-go plus 50% of direct-subsidy benefits funding policy (after

initial contribution) until their plans are fully funded. Orange contributed the larger of the ARC. or 3.5% of payroll, with at least the ARC contributed for 2014, with no commitment to future contributions. San Diego, a cost-sharing multiple-employer defined benefit plan, had a contribution rate of 1.94% of annual covered pension payroll. Seventeen other trial courts made contributions only in 2014, with five other trial courts contributing in other years (Placer in 2013 and 2014; San Mateo in 2013, 2014, and 2015; Nevada in 2012 and 2013; Santa Cruz in 2013; and Butte in 2014 and prior years, which fully funded the plan), but none of these 22 trial courts are committing to future trust contributions. Lassen is fully funded with no future contributions expected, Imperial has committed to $20,000 per year for future contributions, and Santa Clara funding policy is set by the County and will increase to 70% of the ARC long term. For the year ended June 30, 2014, the State contributed $1.9 billion toward annuitants' health and dental benefits. Of this amount, the trial courts represent $73 million and certain discretely presented component units represent $4 million.

Annual Other Postemployment Benefits (OPEB) Cost and Net OPEB Obligation: The State's annual OPEB cost (expense) is calculated based on the ARC. Table 28 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, 2014, and the two preceding years, including trial courts.

Table 28

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, 2012	$ 4,837,769	36.20 %	$ 13,440,768
June 30, 2013	4,992,924	35.33	16,267,964
June 30, 2014	5,129,284	37.20	19,489,030

Table 29 presents the components of the State's net OPEB obligation to the OPEB plan, including trial courts.

Table 29

Schedule of Net OPEB Obligations
June 30, 2014
(amounts in thousands)

		Amount
Annual required contribution	$	5,046,539
Interest on net OPEB obligations		736,019
Adjustment to annual required contribution		(653,274)
Annual OPEB cost		**5,129,284**
Contributions made		(1,908,218)
Increase in net OPEB obligation		**3,221,066**
Net OPEB obligations – beginning of year		**16,267,964**
Net OPEB obligations – end of year	**$**	**19,489,030**

Funded Status and Funding Progress: As of June 30, 2014—the most recent actuarial valuation date for the State substantive plan—the actuarial accrued liability (AAL) for benefits was $71.8 billion, and the actuarial value of assets was $41 million, resulting in an unfunded actuarial accrued liability (UAAL) of $71.8 billion. The covered payroll (annual payroll of active employees covered by the plan) was $19.3 billion, and the ratio of the UAAL to the covered payroll was 373%.

For the trial courts, as of July 1, 2013—the most recent actuarial valuation date—the AAL for benefits was $1.4 billion and the actuarial value of assets was $30 million, resulting in an UAAL of $1.4 billion. The covered payroll was $931 million and the ratio of the UAAL to covered payroll was 149%.

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, 2014 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 2015 and 8.00% in 2016 initially, reduced to an ultimate rate of 4.50% in 2021. 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 active member payroll on an open basis over 30 years.

In the July 1, 2013 biennial actuarial valuations, the entry age normal cost method was used for 50 of the trial courts. The actuarial assumptions included a 3.75% investment rate of return for 40 trial courts. There are 10 other trial courts with investment rates of return ranging from 4.75% to 7.50%. The actuarial assumptions included an annual health care cost trend rate of 8.25% for most trial courts initially, reduced incrementally to an ultimate trend rate of 5.00% after five years. Annual inflation and payroll growth are assumed to be 2.75% and 3.00%, respectively, for most trial courts. The UAAL is amortized on an open basis over 30 years as a level percentage of payroll for 46 trial courts. Three other trial courts (Lassen, Orange, and Yolo) amortize on a closed basis as a level percentage of payroll over 29, 24, and 25 years, respectively. Alpine is amortizing using the level dollar amount over 24 years on a closed basis.

NOTE 26: SUBSEQUENT EVENTS

The following information describes significant events that occurred subsequent to June 30, 2014, but prior to the date of the auditor's report.

A. Debt Issuances

Between September 2014 and March 2015, the primary government issued $5.5 billion in general obligation bonds to finance or refinance capital facilities or other voter-approved costs for public purposes, including children's hospitals; housing; prisons; libraries; earthquake safety and public building rehabilitation; transportation; highway safety, traffic reduction, air quality, and port security; public primary, secondary, community college and university education facilities; passenger rail; safe and clean drinking water; clean water; water security, clean air, parks, coastal and beach protection; seismic retrofit; high-speed rail; stem cell research; and veterans' homes.

In September 2014, the primary government issued $110 million in veterans general obligation bonds to finance or refinance obligations that were issued to provide funds for financing of contracts for the purchase of homes and farms for military veterans who reside in California.

In August 2014, the California State University issued $748 million in revenue bonds to refund certain maturities of Systemwide Revenue Bonds series 2004A, 2005A, and 2005C; repay bond anticipation notes, refund other outstanding bond indebtedness by an auxiliary organization; and fund new capital projects.

In October 2014, the State Public Works Board issued $250 million 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, Department of State Hospitals, and Judicial Council of California.

In October 2014 and November 2014, the Department of Water Resources issued a combined total of $795 million in water system revenue bonds to retire or redeem certain outstanding bonds and commercial paper notes, to fund deposits to the debt service reserve account, to fund capitalized interest, and to pay related issuance costs.

B. Cash Management

In September 2014, the State issued $2.8 billion of Revenue Anticipation Notes to fund, in part, the State's cash management needs of the 2014-15 fiscal year by supporting the cash flow needs of the General Fund.

C. Other

In August 2014, the Electric Power Fund received $142 million in energy settlements to resolve claims arising from events and transactions in Western Energy Markets during the period of January 1, 2000, through June 20, 2001.

In September 2014, CalPERS received a settlement check of $88 million from Citigroup MBS Securities related to residential mortgage-backed securities.

In October 2014, CalPERS received $249 million from Bank of America as part of a settlement related to mortgage-backed securities.

In the November 4, 2014 general election:

- Voters passed Proposition 1 authorizing the issuance of $7.1 billion of general obligation bonds and reallocating $425 million of unused bond authority from prior water bond acts for state water supply infrastructure projects.

- Voters passed Proposition 2 requiring the annual transfer of 1.5% of general fund revenue to the state budget stabilization account, and personal capital gain tax revenues exceeding 8% of general fund revenues to the budget stabilization account and, under certain conditions, a dedicated K-14 school reserve fund. The proposition also requires that half of the budget stabilization account revenues be used to repay state debts and unfunded liabilities. Proposition 2 allows limited use of the state budget stabilization account in the event of an emergency or if there is a state budget deficit. Proposition 2 caps the state budget stabilization account at 10% of general fund revenues, directing the remainder to infrastructure.

- Voters passed Proposition 47 requiring, absent prior conviction for certain serious offenses, misdemeanor sentencing for certain drug possession offenses and certain property crimes involving amounts of $950 or less. Proposition 47 requires the resentencing of persons serving felony sentences for these offenses unless the court finds unreasonable public safety risk. Any savings are to be applied to mental health and drug treatment programs, K-12 schools, and crime victims.

In November 2014, Standard and Poor's Rating Services raised the State's general obligation rating to "A+" from "A", citing as a motivating factor the November 4, 2014 voter approval of Proposition 2 that strengthens the budget stabilization account.

In November 2014, the primary government entered into a note purchase agreement with Bank of America allowing the State to request the bank to purchase up to $500 million of general obligation commercial paper.

In February 2015, Fitch raised the State's general obligation rating to "A+" from "A", citing the State's continued improvement in its fundamental fiscal position, institutionalized changes to its fiscal operations, and ongoing economic and revenue recovery as contributing to an improved financial position and enhancing the State's ability to address future fiscal challenges.

California's demand for unemployment insurance benefits required the State to continue borrowing from the U.S. Department of Labor during the 2014-15 fiscal year. As of June 30, 2014, the State had $7.6 billion in outstanding loans with the U.S. Department of Labor which were used to cover deficits in the Unemployment Programs Fund. As of March 19, 2015, the State had an outstanding loan balance of $8.1 billion. While the State continued to request additional loans during 2015, it estimates that these loans will be fully repaid by 2019.

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, 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
June 30, 2013	110,989	147,392	36,403	75.3	15,346	237.2

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, 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
June 30, 2013	148,614	221,861	73,247	67.0	27,117	270.1

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, 2012	$ 8	$ 63,845	$ 63,837	0.0 %	$ 18,710	341.2 %
June 30, 2013	10	64,585	64,574	0.0	18,060	357.6
June 30, 2014	41	71,814	71,773	0.0	19,250	372.8
Trial Courts [1]						
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
July 1, 2013	30	1,421	1,391	2.1	931	149.4

[1] The trial courts reporting is based on 51 individual biennial actuarial valuations as of July 1, 2013.

Note: The University of California provides 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., Discretely Presented Component Units.

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, 2014, are in the following categories and amounts: state highway infrastructure (completed highway projects) totaling $65.2 billion, land purchased for highway projects totaling $13.5 billion, and infrastructure construction-in-progress (uncompleted highway projects) totaling $12.5 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, 2014, donations are $74,290 of infrastructure land, and relinquishments are $61 million of state highway infrastructure (completed highway projects) and $13 million of infrastructure land.

B. Condition Baselines and Assessments

1. Bridges

The State uses the Bridge Health Index (BHI)—a numerical rating scale from 0 to 100 that uses element-level inspection data—to determine the aggregate condition of its bridges. The inspection data is based on the American Association of State Highway and 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 following table shows the State's established condition baseline and actual BHI for fiscal years 2011-12 through 2013-14:

Fiscal Year Ended June 30	Established BHI Baseline [1]	Actual BHI
2012	80.0	94.5
2013	80.0	94.8
2014	80.0	95.6

[1] The actual statewide 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, 2014:

BHI Description	Bridge Count	Percent	Network BHI
Excellent	7,211	54.96 %	99.9
Good	4,635	35.33	96.9
Acceptable	680	5.18	86.3
Fair	132	1.01	74.2
Poor	102	0.78	62.8
Does not carry traffic	360	2.74	93.2
Total	**13,120**	**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 following table shows the State's established condition baseline and actual distressed lane miles from the last three completed pavement-condition surveys:

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.

The following table provides details on the State's actual distressed lane miles as of the last completed 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 Ended June 30	Estimated Budgeted Preservation Costs (in millions)	Actual Preservation Costs (in millions)
2010	$ 2,162	$ 698
2011	2,802	1,394
2012	2,722	1,806
2013	1,598	989
2014	2,069	612

Budgetary Comparison Schedule

General Fund and Major Special Revenue Funds

Year Ended June 30, 2014
(amounts in thousands)

	General			
	Budgeted Amounts		Actual	Variance With
	Original	Final	Amounts	Final Budget
REVENUES				
Corporation tax	$ 7,971,000	$ 8,107,000	$ 8,724,718	$ 617,718
Intergovernmental	—	—	—	—
Cigarette and tobacco taxes	89,000	86,000	86,378	378
Inheritance, estate, and gift taxes	—	—	—	—
Insurance gross premiums tax	2,143,000	2,287,000	2,362,738	75,738
Vehicle license fees	19,985	19,985	21,833	1,848
Motor vehicle fuel tax	—	—	—	—
Personal income tax	64,287,000	66,522,000	66,782,714	260,714
Retail sales and use taxes	22,920,000	22,759,000	22,250,163	(508,837)
Other major taxes and licenses	351,200	352,200	355,367	3,167
Other revenues	2,019,723	1,704,815	1,835,678	130,863
Total revenues	**99,800,908**	**101,838,000**	**102,419,589**	**581,589**
EXPENDITURES				
State and consumer services	14,081	13,593	11,483	2,110
Business and transportation	91,052	91,118	91,073	45
Resources	1,109,179	1,262,638	1,208,336	54,302
Health and human services	27,518,481	29,390,387	28,591,476	798,911
Correctional programs	8,610,145	9,348,790	9,184,218	164,572
Education	48,408,996	49,570,274	49,546,886	23,388
General government:				
Tax relief	421,734	425,256	421,734	3,522
Debt service	4,800,543	4,800,543	4,751,765	48,778
Other general government	4,327,934	4,478,542	4,201,023	277,519
Total expenditures	**95,302,145**	**99,381,141**	**98,007,994**	**1,373,147**
OTHER FINANCING SOURCES (USES)				
Transfers from other funds	—	—	1,154,221	—
Transfers to other funds	—	—	(1,338,685)	—
Other additions and deductions	—	—	(102,379)	—
Total other financing sources (uses)	**—**	**—**	**(286,843)**	**—**
Excess (deficiency) of revenues and other sources over (under) expenditures and other uses	—	—	4,124,752	—
Fund balances – beginning	**—**	**—**	**4,285,137**	**—**
Fund balances – ending	**$ —**	**$ —**	**$ 8,409,889**	**$ —**

	Federal				Transportation			
	Budgeted Amounts		Actual	Variance With	Budgeted Amounts		Actual	Variance With
	Original	Final	Amounts	Final Budget	Original	Final	Amounts	Final Budget
REVENUES								
Corporation tax	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Intergovernmental	60,477,098	60,477,098	60,477,098	—	—	—	—	—
Cigarette and tobacco taxes	—	—	—	—	—	—	—	—
Inheritance, estate, and gift taxes	—	—	—	—	—	—	—	—
Insurance gross premiums tax	—	—	—	—	—	—	—	—
Vehicle license fees	—	—	—	—	—	—	—	—
Motor vehicle fuel tax	—	—	—	—	6,026,194	6,014,023	6,065,747	51,724
Personal income tax	—	—	—	—	—	—	—	—
Retail sales and use taxes	—	—	—	—	—	—	—	—
Other major taxes and licenses	—	—	—	—	3,796,510	3,859,470	3,900,966	41,496
Other revenues	26	26	26	—	400,774	461,636	385,002	(76,634)
Total revenues	**60,477,124**	**60,477,124**	**60,477,124**	**—**	**10,223,478**	**10,335,129**	**10,351,715**	**16,586**
EXPENDITURES								
State and consumer services	5,411	5,411	5,411	—	115,770	115,770	102,987	12,783
Business and transportation	5,069,737	5,069,737	5,069,737	—	11,587,798	11,555,219	10,523,981	1,031,238
Resources	259,979	259,979	259,979	—	234,072	234,155	233,369	786
Health and human services	44,172,988	44,172,988	44,172,988	—	3,418	3,418	2,656	762
Correctional programs	88,228	88,228	88,228	—	—	—	—	—
Education	6,727,357	6,727,357	6,727,357	—	2,649	2,649	2,118	531
General government:								
Tax relief	—	—	—	—	—	—	—	—
Debt service	—	—	—	—	686	2,350	1,399	951
Other general government	962,624	962,624	962,624	—	665,866	666,600	658,196	8,404
Total expenditures	**57,286,324**	**57,286,324**	**57,286,324**	**—**	**12,610,259**	**12,580,161**	**11,524,706**	**1,055,455**
OTHER FINANCING SOURCES (USES)								
Transfers from other funds	—	—	8,461,005	—	—	—	18,492,786	—
Transfers to other funds	—	—	(11,636,639)	—	—	—	(21,415,565)	—
Other additions and deductions	—	—	(16,758)	—	—	—	(1,116,593)	—
Total other financing sources (uses)	**—**	**—**	**(3,192,392)**	**—**	**—**	**—**	**(4,039,372)**	**—**
Excess (deficiency) of revenues and other sources over (under) expenditures and other uses	—	—	(1,592)	—	—	—	(5,212,363)	—
Fund balances – beginning	**—**	**—**	**10,769**	**—**	**—**	**—**	**22,442,954**	**—**
Fund balances – ending	**$ —**	**$ —**	**$ 9,177**	**$ —**	**$ —**	**$ —**	**$ 17,230,591**	**$ —**

(continued)

Budgetary Comparison Schedule (continued)

General Fund and Major Special Revenue Funds

Year Ended June 30, 2014
(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	153,108	153,108	153,108	—
Other revenues	3,464,344	3,464,344	3,464,344	—
Total revenues	**3,617,452**	**3,617,452**	**3,617,452**	**—**
EXPENDITURES				
State and consumer services	79,501	79,501	64,120	15,381
Business and transportation	8,928	8,928	8,928	—
Resources	4,784,304	4,523,630	4,047,506	476,124
Health and human services	218,588	170,386	106,722	63,664
Correctional programs	—	—	—	—
Education	16,140	16,140	14,089	2,051
General government:				
Tax relief	—	—	—	—
Debt service	—	—	—	—
Other general government	122,080	110,587	89,814	20,773
Total expenditures	**5,229,541**	**4,909,172**	**4,331,179**	**577,993**
OTHER FINANCING SOURCES (USES)				
Transfers from other funds	—	—	896,385	—
Transfers to other funds	—	—	(740,256)	—
Other additions and deductions	—	—	54,934	—
Total other financing sources (uses)	**—**	**—**	**211,063**	**—**
Excess (deficiency) of revenues and other sources over (under) expenditures and other uses	—	—	(502,665)	—
Fund balances – beginning	**—**	**—**	**12,029,423 ***	**—**
Fund balances – ending	**$ —**	**$ —**	**$ 11,526,758**	**$ —**

* Restated

(concluded)

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

June 30, 2014
(amounts in thousands)

		Major Special Revenue Funds		
	General	Federal	Transportation	Environmental and Natural Resources
Budgetary fund balance reclassified into GAAP statement fund structure	**$ 8,409,889**	**$ 9,177**	**$ 17,230,591**	**$ 11,526,758**
Basis difference:				
Interfund receivables	49,234	—	3,354,281	829,227
Loans receivable	126,121	201,804	—	1,113,482
Interfund payables	(6,123,537)	—	(2,316)	(25,000)
Escheat property	(820,249)	—	—	—
Bonds authorized but unissued	—	—	(15,119,755)	(5,751,377)
Tax revenues	(717,500)	—	—	—
Fund classification changes	447,754	1,593	—	—
Other	4,363	—	2,529,013	12,808
Timing difference:				
Liabilities budgeted in subsequent years	(8,820,671)	(1,000)	(525,590)	(75,344)
GAAP fund balance (deficit) – ending	**$ (7,444,596)**	**$ 211,574**	**$ 7,466,224**	**$ 7,630,554**

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 for the 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. While the encumbrances relate to all programs' expenditures on a budgetary basis, adjustments for encumbrances are budgeted under other general government.

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. The supplement includes a 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 by emailing the State Controller's Office, Division of Accounting and Reporting at StateGovReports@sco.ca.gov.

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 is presented on the previous page and the reconciling items are explained in the following paragraphs.

The beginning fund balance for the General Fund on the budgetary basis is restated for prior year revenue adjustments and prior year expenditure adjustments. A prior year revenue adjustment occurs when the actual amount received in the current year differs from the amount of revenue accrued in the prior year. A prior year expenditure adjustment results when the actual amount paid in the current year differs from the prior year accrual for appropriations for which the ability to encumber funds has lapsed in previous periods. The beginning fund balance on a GAAP basis is not affected by these adjustments.

Basis Difference

Interfund Receivables and Loans Receivable: Loans made to other funds or to other governments are normally recorded as either expenditures or transfers on a budgetary basis. However, in accordance with GAAP, these loans are recorded as assets. The adjustments related to interfund receivables caused a $49 million increase to the fund balance in the General Fund, a $3.4 billion increase to the fund balance in the Transportation Fund, and a $829 million increase to the fund balance in Environmental and Natural Resources Fund. The adjustments related to loans receivable caused increases of $126 million in the General Fund, $202 million in the Federal Fund, and $1.1 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 $6.1 billion decrease to the budgetary fund balance in the General Fund, $2 million decrease to the Transportation Fund, and $25 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 $820 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 $15.1 billion decrease to the fund balance in the Transportation Fund and a $5.8 billion decrease in the Environmental and Natural Resources Fund.

Tax Revenues: Estimated tax payments are accrued on a budgetary basis pursuant to Chapter 751, Statutes of 2008. However, in accordance with GAAP, tax payments are accrued based on the portion of estimated net final payments related to the fiscal year. This adjustment caused a fund balance decrease of $718 million in the General Fund.

Fund Classification Changes: The fund balance amounts for governmental funds have been reclassified in accordance with governmental accounting standards. These reclassifications caused fund balance increases of $448 million in the General Fund and $2 million in the Federal Fund. These increases represent the fund balances of funds that are not considered part of the General Fund or the Federal Fund, respectively, for any budgetary purpose 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 increases of $5 million in the General Fund, $2.5 billion in the Transportation Fund, and $13 million in the 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 $8.8 billion in the General Fund, $1 million in the Federal Fund, $526 million in the Transportation Fund, and $75 million in the Environmental and Natural Resources Fund. The large decrease in the General Fund primarily consists of $3.9 billion for deferred apportionment payments to K-12 schools and community colleges, $2.8 billion for medical assistance, $989 million for June 2014 payroll that was deferred to July 2014, $555 million for pension contributions, $284 million for workers' compensation claims, and $191 million in tax overpayments.

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Combining Financial Statements and Schedules – Nonmajor and Other Funds

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Nonmajor Governmental Funds

Nonmajor governmental funds account for the State's activities that do not meet the criteria of a major governmental fund. Following are brief descriptions of nonmajor governmental funds.

Special revenue funds account for the proceeds of specific revenue sources, other than debt service or capital projects, that are restricted or committed to expenditures for specific purposes.

The **Business and Professions Regulatory and Licensing Fund** accounts for fees and other revenues charged for regulating and licensing specific industries, professions, and vocations.

The **Financing for Local Governments and the Public Fund** accounts for taxes, fees, bond proceeds, and other revenues that are used to finance the construction and maintenance of parks, jails, and other public and local government programs.

The **Cigarette and Tobacco Tax Fund** accounts for a surtax on cigarette and tobacco products that is used for various health programs.

The **Local Revenue and Public Safety Fund** accounts for vehicle license fees and a 1.5625% state sales tax that is dedicated to local governments for realigning costs from the State to local governments and a 0.5% state sales tax that is dedicated to local governments to fund public safety programs.

The **Health Care Related Programs Fund** accounts for fees, taxes, bond proceeds, transfers from the Federal Trust Fund and other state funds, and other revenues that are used for the Medi-Cal and Healthy Families programs, medical research, and other health and human services programs.

The **Trial Courts Fund** accounts for the various fees collected by the courts, maintenance-of-effort payments from the counties, transfers in from the General Fund, and trial court operating costs.

The **Golden State Tobacco Securitization Corporation Fund** is a blended component unit that accounts for the receipt of Tobacco Revenue Settlements pledged for the payment of debt service.

Other special revenue programs funds account for all other proceeds of revenue sources, other than debt service or capital projects, that are restricted or committed to expenditures for specific purposes.

Debt service funds account for and report financial resources that are restricted, committed, or assigned for the payment of principal and interest on general long-term obligations.

The **Economic Recovery Bond Sinking Fund** accounts for General Fund transfers, proceeds from the sale of surplus property, and the 0.25% sales and use tax revenue collected for the payment of principal, interest, and other related costs of the Economic Recovery Bonds.

(continued)

(continued)

The **Transportation Debt Service Fund** accounts for Transportation Fund transfers used for the payment of principal and interest related to various transportation-related general obligation bonds.

Capital projects funds account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

The **Higher Education Construction Fund** accounts for bond proceeds used to construct state colleges and universities.

The **Hospital Construction Fund** accounts for bond proceeds that are used to construct hospitals.

The **Local Government Construction Fund** accounts for bond proceeds that are used to construct schools, libraries, and other major capital facilities for local governments.

Building authorities are blended component units that are created by joint-powers agreements between local governments and the State or other local governments for the purpose of financing the construction of state buildings. The funds account for bond proceeds used to finance and construct state buildings and parking facilities.

Other capital projects funds account for transactions related to resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

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Combining Balance Sheet

Nonmajor Governmental Funds

June 30, 2014
(amounts in thousands)

	Special Revenue								
	Business and Professions Regulatory and Licensing	Financing for Local Governments and the Public	Cigarette and Tobacco Tax	Local Revenue and Public Safety	Health Care Related Programs	Trial Courts	Golden State Tobacco Securitization Corporation	Other Special Revenue Programs	Total Nonmajor Special Revenue
ASSETS									
Cash and pooled investments	$ 1,169,322	$ 931,273	$ 430,051	$ 2,744,756	$ 832,942	$ 1,014,499	$ 154,127	$ 1,597,334	$ 8,874,304
Investments	—	—	—	—	—	134,745	499,478	—	634,223
Receivables (net)	77,423	18,927	317,327	68,301	2,274,615	298,007	202,884	141,660	3,399,144
Due from other funds	33,410	502,541	5,891	27,805	230,209	197	—	333,128	1,133,181
Due from other governments	14,372	307,299	—	—	1,767	26,989	—	57,401	407,828
Interfund receivables	266,142	215,178	—	—	12,000	440,000	—	399,400	1,332,720
Loans receivable	188,887	2,395,746	—	—	39,200	—	—	11,176	2,635,009
Other assets	428	—	—	—	—	30,053	—	—	30,481
Total assets	**$ 1,749,984**	**$ 4,370,964**	**$ 753,269**	**$ 2,840,862**	**$ 3,390,733**	**$ 1,944,490**	**$ 856,489**	**$ 2,540,099**	**$ 18,446,890**
LIABILITIES									
Accounts payable	$ 50,146	$ 132,707	$ 75,107	$ 6,670	$ 155,486	$ 242,811	$ 120	$ 246,094	$ 909,141
Due to other funds	34,584	305,991	13,597	30,330	2,336,562	1,116	—	37,354	2,759,534
Due to other governments	335	181,145	101,378	2,756,627	34,956	132,940	—	304,800	3,512,181
Interfund payables	2,405	—	—	—	—	—	—	6,179	8,584
Revenues received in advance	35,018	1,828	—	—	10,432	16,067	—	29,786	93,131
Deposits	370	—	—	—	—	373,441	—	18,353	392,164
Interest payable	—	—	—	—	—	—	—	—	—
General obligation bonds payable	—	—	—	—	—	—	—	—	—
Other liabilities	44,624	388	4	—	126	81,490	—	13,762	140,394
Total liabilities	**167,482**	**622,059**	**190,086**	**2,793,627**	**2,537,562**	**847,865**	**120**	**656,328**	**7,815,129**
DEFERRED INFLOWS OF RESOURCES	**—**	**—**	**260,517**	**—**	**—**	**—**	**—**	**5,273**	**265,790**
Total liabilities and deferred inflows of resources	**167,482**	**622,059**	**450,603**	**2,793,627**	**2,537,562**	**847,865**	**120**	**661,601**	**8,080,919**
FUND BALANCES									
Nonspendable	—	—	—	—	—	27,260	—	—	27,260
Restricted	856,450	3,445,078	302,666	8,549	764,618	942,398	856,369	1,632,349	8,808,477
Committed	726,052	310,685	—	38,686	88,553	108,110	—	247,772	1,519,858
Assigned	—	—	—	—	—	18,857	—	—	18,857
Unassigned	—	(6,858)	—	—	—	—	—	(1,623)	(8,481)
Total fund balances	**1,582,502**	**3,748,905**	**302,666**	**47,235**	**853,171**	**1,096,625**	**856,369**	**1,878,498**	**10,365,971**
Total liabilites, deferred inflows of resources, and fund balances	**$ 1,749,984**	**$ 4,370,964**	**$ 753,269**	**$ 2,840,862**	**$ 3,390,733**	**$ 1,944,490**	**$ 856,489**	**$ 2,540,099**	**$ 18,446,890**

(continued)

Combining Balance Sheet (continued)

Nonmajor Governmental Funds

June 30, 2014
(amounts in thousands)

	Debt Service			Capital Projects						
	Economic Recovery Bond Sinking	Transportation Debt Service	Total Nonmajor Debt Service	Higher Education Construction	Hospital Construction	Local Government Construction	Building Authorities	Other Capital Projects	Total Nonmajor Capital Projects	Total Nonmajor Governmental
ASSETS										
Cash and pooled investments	$ 1,882,054	$ —	$ 1,882,054	$ 297,765	$ 47,699	$ 363,649	$ 43,779	$ 78,792	$ 831,684	$ 11,588,042
Investments	—	—	—	—	—	—	—	—	—	634,223
Receivables (net)	57,662	—	57,662	10	16	—	—	74	100	3,456,906
Due from other funds	39,694	—	39,694	129	30	229	20,836	12,096	33,320	1,206,195
Due from other governments	—	—	—	—	—	3,936	—	—	3,936	411,764
Interfund receivables	—	—	—	—	—	—	—	—	—	1,332,720
Loans receivable	—	—	—	—	—	—	—	—	—	2,635,009
Other assets	—	—	—	—	—	—	—	—	—	30,481
Total assets	**$ 1,979,410**	**$ —**	**$ 1,979,410**	**$ 297,904**	**$ 47,745**	**$ 367,814**	**$ 64,615**	**$ 90,962**	**$ 869,040**	**$ 21,295,340**
LIABILITIES										
Accounts payable	$ 298	$ —	$ 298	$ 2,072	$ 8,036	$ 7,495	$ —	$ 7,740	$ 25,343	$ 934,782
Due to other funds	—	—	—	620	—	2,724	—	2,941	6,285	2,765,819
Due to other governments	—	—	—	—	—	2,651	—	85	2,736	3,514,917
Interfund payables	—	—	—	—	—	—	—	—	—	8,584
Revenues received in advance	—	—	—	—	—	—	—	—	—	93,131
Deposits	—	—	—	—	—	—	—	—	—	392,164
Interest payable	111,155	—	111,155	—	—	—	2,514	—	2,514	113,669
General obligation bonds payable	1,164,630	—	1,164,630	—	—	—	—	—	—	1,164,630
Other liabilities	—	—	—	—	—	—	—	—	—	140,394
Total liabilities	**1,276,083**	**—**	**1,276,083**	**2,692**	**8,036**	**12,870**	**2,514**	**10,766**	**36,878**	**9,128,090**
DEFERRED INFLOWS OF RESOURCES	—	—	—	—	—	—	—	—	—	265,790
Total liabilities and deferred inflows of resources	**1,276,083**	**—**	**1,276,083**	**2,692**	**8,036**	**12,870**	**2,514**	**10,766**	**36,878**	**9,393,880**
FUND BALANCES										
Nonspendable	—	—	—	—	—	—	—	—	—	27,260
Restricted	703,327	—	703,327	295,212	39,709	354,944	62,101	73,784	825,750	10,337,554
Committed	—	—	—	—	—	—	—	6,412	6,412	1,526,270
Assigned	—	—	—	—	—	—	—	—	—	18,857
Unassigned	—	—	—	—	—	—	—	—	—	(8,481)
Total fund balances	**703,327**	**—**	**703,327**	**295,212**	**39,709**	**354,944**	**62,101**	**80,196**	**832,162**	**11,901,460**
Total liabilites, deferred inflows of resources, and fund balances	**$ 1,979,410**	**$ —**	**$ 1,979,410**	**$ 297,904**	**$ 47,745**	**$ 367,814**	**$ 64,615**	**$ 90,962**	**$ 869,040**	**$ 21,295,340**

(concluded)

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Nonmajor Governmental Funds

Year Ended June 30, 2014
(amounts in thousands)

	Special Revenue								
	Business and Professions Regulatory and Licensing	**Financing for Local Governments and the Public**	**Cigarette and Tobacco Tax**	**Local Revenue and Public Safety**	**Health Care Related Programs**	**Trial Courts**	**Golden State Tobacco Securitization Corporation**	**Other Special Revenue Programs**	**Total Nonmajor Special Revenue**
REVENUES									
Personal income taxes	$ —	$ 1,187,411	$ —	$ —	$ —	$ —	$ —	$ —	$ 1,187,411
Sales and use taxes	—	—	—	11,977,469	—	—	—	—	11,977,469
Insurance taxes	—	—	—	—	986,717	—	—	—	986,717
Other taxes	95,996	604,240	734,870	—	—	—	—	296	1,435,402
Intergovernmental	—	687,168	—	—	139,479	809,027	—	—	1,635,674
Licenses and permits	363,006	18,803	—	2,135,720	3	—	—	10,757	2,528,289
Charges for services	38,704	2,856	490	—	75	56,050	—	160,146	258,321
Fees	925,070	554	24	—	3,764,500	629,299	—	986,712	6,306,159
Penalties	9,045	10,739	—	—	10,175	510,942	—	275,285	816,186
Investment and interest	32,404	2,654	968	506	3,391	2,921	811	6,054	49,709
Escheat	63	—	—	—	—	1,008	—	3	1,074
Other	12,694	20,293	208	—	318,153	142,960	355,107	319,604	1,169,019
Total revenues	**1,476,982**	**2,534,718**	**736,560**	**14,113,695**	**5,222,493**	**2,152,207**	**355,918**	**1,758,857**	**28,351,430**
EXPENDITURES									
Current:									
General government	554,513	551,123	17,352	4,012,410	350	2,971,498	—	1,034,702	9,141,948
Education	17,772	317	17,072	—	194,082	—	—	7,292	236,535
Health and human services	294,888	2,000,418	575,966	8,883,546	4,954,153	—	—	650,685	17,359,656
Resources	51,679	85,218	12,082	—	152	—	—	49,149	198,280
State and consumer services	428,173	—	—	—	—	195	—	10,009	438,377
Business and transportation	80,655	184,794	—	—	—	—	—	10,241	275,690
Correctional programs	—	101,043	—	1,217,699	—	—	—	30,104	1,348,846
Capital outlay	—	225	—	—	—	—	—	—	225
Debt service:									
Bond and commercial paper retirement	—	5,135	—	—	227,475	—	50,910	72,414	355,934
Interest and fiscal charges	—	63	—	—	264	—	325,884	22,309	348,520
Total expenditures	**1,427,680**	**2,928,336**	**622,472**	**14,113,655**	**5,376,476**	**2,971,693**	**376,794**	**1,886,905**	**29,704,011**
Excess (deficiency) of revenues over (under) expenditures	49,302	(393,618)	114,088	40	(153,983)	(819,486)	(20,876)	(128,048)	(1,352,581)
OTHER FINANCING SOURCES (USES)									
General obligation bonds and commercial paper issued	—	50,000	—	—	462,360	—	—	—	512,360
Refunding debt issued	—	4,660	—	—	—	—	—	—	4,660
Payment to refund long-term debt	—	—	—	—	—	—	—	—	—
Premium on bonds issued	—	534	—	—	465	—	—	—	999
Transfers in	19,532	585,946	—	558	178,807	863,654	—	19,347	1,667,844
Transfers out	(16,626)	(24,644)	(82,871)	—	(8,750)	(200,000)	—	(51,043)	(383,934)
Total other financing sources (uses)	**2,906**	**616,496**	**(82,871)**	**558**	**632,882**	**663,654**	**—**	**(31,696)**	**1,801,929**
Net change in fund balances	52,208	222,878	31,217	598	478,899	(155,832)	(20,876)	(159,744)	449,348
Fund balances – beginning	**1,530,294**	**3,526,027** *	**271,449**	**46,637**	**374,272**	**1,252,457**	**877,245** *	**2,038,242**	**9,916,623**
Fund balances – ending	**$ 1,582,502**	**$ 3,748,905**	**$ 302,666**	**$ 47,235**	**$ 853,171**	**$ 1,096,625**	**$ 856,369**	**$ 1,878,498**	**$ 10,365,971**

* Restated

(continued)

Combining Statement of Revenues, Expenditures and Changes in Fund Balances (continued)

Nonmajor Governmental Funds

Year Ended June 30, 2014

(amounts in thousands)

	Debt Service			Capital Projects						
	Economic Recovery Bond Sinking	Transportation Debt Service	Total Nonmajor Debt Service	Higher Education Construction	Hospital Construction	Local Government Construction	Building Authorities	Other Capital Projects	Total Nonmajor Capital Projects	Total Nonmajor Governmental
REVENUES										
Personal income taxes	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ 1,187,411
Sales and use taxes	1,505,455	—	1,505,455	—	—	—	—	—	—	13,482,924
Insurance taxes	—	—	—	—	—	—	—	—	—	986,717
Other taxes	—	—	—	—	—	—	—	—	—	1,435,402
Intergovernmental	—	—	—	—	—	—	—	—	—	1,635,674
Licenses and permits	—	—	—	—	—	—	—	1,067	1,067	2,529,356
Charges for services	—	—	—	—	—	—	—	—	—	258,321
Fees	—	—	—	—	—	—	—	—	—	6,306,159
Penalties	—	—	—	—	—	—	—	—	—	816,186
Investment and interest	2,711	—	2,711	658	129	3,143	132	42	4,104	56,524
Escheat	—	—	—	—	—	—	—	—	—	1,074
Other	57,832	—	57,832	58	—	—	—	2,565	2,623	1,229,474
Total revenues	**1,565,998**	**—**	**1,565,998**	**716**	**129**	**3,143**	**132**	**3,674**	**7,794**	**29,925,222**
EXPENDITURES										
Current:										
General government	17,102	—	17,102	—	61,192	—	—	—	61,192	9,220,242
Education	—	—	—	—	—	692,298	—	—	692,298	928,833
Health and human services	—	—	—	—	—	—	—	—	—	17,359,656
Resources	—	—	—	—	—	—	—	36,630	36,630	234,910
State and consumer services	—	—	—	—	—	—	—	—	—	438,377
Business and transportation	—	—	—	—	—	—	—	—	—	275,690
Correctional programs	—	—	—	—	—	—	—	—	—	1,348,846
Capital outlay	—	—	—	150,306	397	14,429	—	4,296	169,428	169,653
Debt service:										
Bond and commercial paper retirement	1,314,630	321,038	1,635,668	137,305	15,140	1,748,085	39,895	7,605	1,948,030	3,939,632
Interest and fiscal charges	222,279	714,302	936,581	2,906	12	26,711	29,882	149	59,660	1,344,761
Total expenditures	**1,554,011**	**1,035,340**	**2,589,351**	**290,517**	**76,741**	**2,481,523**	**69,777**	**48,680**	**2,967,238**	**35,260,600**
Excess (deficiency) of revenues over (under) expenditures	11,987	(1,035,340)	(1,023,353)	(289,801)	(76,612)	(2,478,380)	(69,645)	(45,006)	(2,959,444)	(5,335,378)
OTHER FINANCING SOURCES (USES)										
General obligation bonds and commercial paper issued	—	—	—	215,585	52,245	905,910	—	2,275	1,176,015	1,688,375
Refunding debt issued	—	—	—	287,765	—	1,330,935	—	6,985	1,625,685	1,630,345
Payment to refund long-term debt	—	—	—	(173,373)	—	—	—	—	(173,373)	(173,373)
Premium on bonds issued	—	—	—	23,902	2,057	150,885	—	769	177,613	178,612
Transfers in	—	1,035,340	1,035,340	—	—	—	53,025	48,458	101,483	2,804,667
Transfers out	—	—	—	—	—	(16)	—	—	(16)	(383,950)
Total other financing sources (uses)	**—**	**1,035,340**	**1,035,340**	**353,879**	**54,302**	**2,387,714**	**53,025**	**58,487**	**2,907,407**	**5,744,676**
Net change in fund balances	11,987	—	11,987	64,078	(22,310)	(90,666)	(16,620)	13,481	(52,037)	409,298
Fund balances – beginning	**691,340** *	**—**	**691,340**	**231,134**	**62,019**	**445,610**	**78,721**	**66,715**	**884,199**	**11,492,162**
Fund balances – ending	**$ 703,327**	**$ —**	**$ 703,327**	**$ 295,212**	**$ 39,709**	**$ 354,944**	**$ 62,101**	**$ 80,196**	**$ 832,162**	**$ 11,901,460**

* Restated

(concluded)

Budgetary Comparison Schedule

Budgetary Basis

Nonmajor Governmental Funds*

Year Ended June 30, 2014
(amounts in thousands)

	Budget Amounts	Actual Amounts	Variance with Final Budget
REVENUES			
Cigarette and tobacco taxes	$ 481,377	$ 481,377	$ —
Vehicle license fees	1,611,149	1,611,149	—
Personal income tax	1,187,411	1,187,411	—
Retail sales and use taxes	13,637,924	13,637,924	—
Other major taxes and licenses	841,449	841,449	—
Other revenues	10,351,442	10,351,442	—
Total revenues	**28,110,752**	**28,110,752**	**—**
EXPENDITURES			
State and consumer services	481,590	445,721	35,869
Business and transportation	1,346,118	1,333,793	12,325
Resources	204,189	185,353	18,836
Health and human services	20,392,561	19,076,855	1,315,706
Correctional programs	133,217	132,752	465
Education	853,265	784,888	68,377
General government:			
Tax relief	582	582	—
Other general government	9,483,546	9,174,497	309,049
Total expenditures	**32,895,068**	**31,134,441**	**1,760,627**
OTHER FINANCING SOURCES (USES)			
Transfers from other funds	—	24,566,450	—
Transfers to other funds	—	(22,052,439)	—
Other additions and deductions	—	844,642	—
Total other financing sources (uses)	**—**	**3,358,653**	**—**
Excess of revenues and other sources over expenditures and other uses	—	334,964	—
Fund balances – beginning	**—**	**11,654,326**	**—**
Fund balances – ending	**$ —**	**$ 11,989,290**	**$ —**

* On a budgetary basis, the State's funds are classified as either governmental cost funds or nongovernmental cost funds. The governmental cost funds include the General Fund, most of the funds that comprise the Transportation Fund and the Environmental and Natural Resources Fund, and many other funds that make up the nonmajor governmental funds reported in these financial statements. Governmental cost funds derive their revenue from taxes, licenses, and fees that support the general operations of the State. The appropriations of the budgetary basis governmental cost funds form the annual appropriated budget of the State. Nongovernmental cost funds consist of funds that derive their receipts from sources other than general and special taxes, licenses, fees, or state revenues and mainly represent the proprietary and fiduciary funds reported in these financial statements. Expenditures of these funds do not represent a cost of government and most of the nongovernmental cost funds are not included in the annual appropriated budget. Therefore, the expenditures of these funds are not included in this schedule. The Federal Fund is one nongovernmental cost fund that is included in the annual appropriated budget. The Budgetary Comparison Schedule for the General Fund, Federal Fund, Transportation Fund, and Environmental and Natural Resources Fund is included in the Required Supplementary Information section; the remaining governmental cost funds are reflected in this schedule. Additional information on the budgetary basis of accounting can be found in the Management's Discussion and Analysis, Note 2, Budgetary and Legal Compliance, notes to the Required Supplementary Information, and in the separately issued Comprehensive Annual Financial Report Supplement.

Internal Service Funds

Internal service funds account for state activities that provide goods and services to other state departments or agencies on a cost reimbursement basis. Following are brief descriptions of the internal service funds.

The **Public Buildings Construction Fund** accounts for rental charges from the lease of public assets and the related lease-purchase revenue bonds. This fund was reclassified from an enterprise fund to an internal service fund this fiscal year.

The **Architecture Revolving Fund** accounts for charges for the costs of architectural services, construction, and improvements.

The **Service Revolving Fund** accounts for charges for printing and procurement services rendered by the Department of General Services for state departments and other public entities.

The **Prison Industries Fund** accounts for charges for goods produced by inmates in state prisons that are sold to state departments and other governmental entities.

The **Financial Information Systems Fund** accounts for charges for the development and subsequent use of the State's new financial information system. This was previously reported in the Other Internal Service Programs column.

The **Technology Services Revolving Fund** accounts for charges for technology services performed for various state, federal, and local government entities by the California Technology Agency.

The **Water Resources Revolving Fund** accounts for charges for administrative services related to water delivery provided by the Department of Water Resources to federal, state, and local government agencies.

Other internal service program funds account for all other goods and services provided to other agencies, departments, or governments on a cost-reimbursement basis.

Combining Statement of Net Position

Internal Service Funds

June 30, 2014
(amounts in thousands)

	Public Buildings Construction	Architecture Revolving	Service Revolving	Prison Industries	Financial Information Systems	Technology Services Revolving	Water Resources Revolving	Other Internal Service Programs	Total
ASSETS									
Current assets:									
Cash and pooled investments	$ —	$ 274,968	$ 82,885	$ 168,509	$ 44,018	$ 47,973	$ 14,053	$ 362,669	$ 995,075
Restricted assets:									
Cash and pooled investments	3,339,603	—	—	—	—	—	—	—	3,339,603
Net investment in direct financing leases	406,075	—	—	—	—	—	—	—	406,075
Receivables (net)	—	26	8,674	1,831	8	86,199	12,929	267	109,934
Due from other funds	215,923	13,994	26,331	1,667	2,869	50,936	75,521	54,681	441,922
Due from other governments	—	—	19,878	307	—	797	—	60	21,042
Prepaid items	—	12,387	93,435	282	6,478	573	11,064	159	124,378
Inventories	—	—	8,011	37,805	—	29,901	983	—	76,700
Total current assets	3,961,601	301,375	239,214	210,401	53,373	216,379	114,550	417,836	5,514,729
Noncurrent assets:									
Restricted assets:									
Cash and pooled investments	402,394	—	—	—	—	—	—	—	402,394
Net investment in direct financing leases	6,576,903	—	—	—	—	—	—	—	6,576,903
Interfund receivables	—	—	—	—	—	—	—	15,774	15,774
Long-term prepaid charges	8,329	—	—	—	—	—	—	—	8,329
Capital assets:									
Land	—	—	—	—	—	—	—	2,312	2,312
Buildings and other depreciable property	—	409	134,941	157,940	1,872	324,516	30,264	10,545	660,487
Intangible assets – amortizable	—	—	9,252	3,672	11	50,282	—	—	63,217
Less: accumulated depreciation/amortization	—	(409)	(112,282)	(116,709)	(888)	(278,786)	(30,264)	(6,511)	(545,849)
Construction in progress	941,012	—	—	234	—	—	—	140	941,386
Intangible assets – non-amortizable	—	—	—	—	91,167	—	—	—	91,167
Total noncurrent assets	7,928,638	—	31,911	45,137	92,162	96,012	—	22,260	8,216,120
Total assets	**11,890,239**	**301,375**	**271,125**	**255,538**	**145,535**	**312,391**	**114,550**	**440,096**	**13,730,849**
DEFERRED OUTFLOWS OF RESOURCES	**118,169**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**118,169**
Total assets and deferred outflows of resources	**$ 12,008,408**	**$ 301,375**	**$ 271,125**	**$ 255,538**	**$ 145,535**	**$ 312,391**	**$ 114,550**	**$ 440,096**	**$ 13,849,018**

Combining Statement of Net Position

Internal Service Funds

June 30, 2014
(amounts in thousands)

	Public Buildings Construction	Architecture Revolving	Service Revolving	Prison Industries	Financial Information Systems	Technology Services Revolving	Water Resources Revolving	Other Internal Service Programs	Total
LIABILITIES									
Current liabilities:									
Accounts payable	$ 168,622	$ 18,259	$ 42,171	$ 8,193	$ 39,714	$ 118,341	$ 19,497	$ 88,400	$ 503,197
Due to other funds	10,534	429	56,710	7,399	4,426	—	—	21,139	100,637
Due to other governments	194	—	162	—	—	458	4	61	879
Revenues received in advance	5,787	285,376	22,918	895	—	—	46	—	315,022
Deposits	—	—	429	—	—	—	—	—	429
Contracts and notes payable	—	—	615	—	—	14,587	—	—	15,202
Interest payable	118,944	—	—	—	—	—	—	—	118,944
Current portion of long-term obligations	500,790	—	—	3,197	856	—	—	—	504,843
Other liabilities	93,239	1,615	4,854	2,031	—	—	486	3,337	105,562
Total current liabilities	898,110	305,679	127,859	21,715	44,996	133,386	20,033	112,937	1,664,715
Noncurrent liabilities:									
Interfund payables	—	—	3,826	—	37,650	1,750	95,208	172	138,606
Compensated absences payable	—	8,405	64,388	9,577	1,970	30,259	50,699	1,425	166,723
Workers' compensation benefits payable	—	1,007	20,763	14,485	—	6,782	—	—	43,037
Revenue bonds payable	10,822,897	—	—	—	—	—	—	—	10,822,897
Net other postemployment benefits obligation	—	12,944	226,449	46,808	—	72,051	—	86,060	444,312
Other noncurrent liabilities	—	—	—	—	—	21,329	—	—	21,329
Total noncurrent liabilities	10,822,897	22,356	315,426	70,870	39,620	132,171	145,907	87,657	11,636,904
Total liabilities	**11,721,007**	**328,035**	**443,285**	**92,585**	**84,616**	**265,557**	**165,940**	**200,594**	**13,301,619**
NET POSITION									
Net investment in capital assets	—	—	31,911	45,137	92,162	69,743	—	6,486	245,439
Restricted – expendable:									
Construction	282,605	—	—	—	—	—	—	—	282,605
Debt service	4,796	—	—	—	—	—	—	—	4,796
Total expendable	287,401	—	—	—	—	—	—	—	287,401
Unrestricted	—	(26,660)	(204,071)	117,816	(31,243)	(22,909)	(51,390)	233,016	14,559
Total net position (deficits)	**287,401**	**(26,660)**	**(172,160)**	**162,953**	**60,919**	**46,834**	**(51,390)**	**239,502**	**547,399**
Total liabilites and net position	**$ 12,008,408**	**$ 301,375**	**$ 271,125**	**$ 255,538**	**$ 145,535**	**$ 312,391**	**$ 114,550**	**$ 440,096**	**$ 13,849,018**

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

Internal Service Funds

Year Ended June 30, 2014
(amounts in thousands)

	Public Buildings Construction	Architecture Revolving	Service Revolving	Prison Industries	Financial Information Systems	Technology Services Revolving	Water Resources Revolving	Other Internal Service Programs	Total
OPERATING REVENUES									
Services and sales	$ —	$ 177,428	$ 770,972	$ 220,322	$ 84,663	$ 554,828	$ 395,536	$ 339,344	$ 2,543,093
Investment and interest	8,173	—	—	—	—	—	—	—	8,173
Rent	418,574	—	—	—	—	—	—	—	418,574
Other	5,143	—	—	—	—	—	—	—	5,143
Total operating revenues	**431,890**	**177,428**	**770,972**	**220,322**	**84,663**	**554,828**	**395,536**	**339,344**	**2,974,983**
OPERATING EXPENSES									
Personal services	—	28,832	245,860	62,867	396	163,715	382,909	29,327	913,906
Supplies	—	—	—	3,525	—	—	4,988	1,308	9,821
Services and charges	14,403	148,931	505,474	159,845	40,973	464,749	—	253,337	1,587,712
Depreciation	—	—	9,591	6,135	302	30,275	1,349	251	47,903
Interest expense	439,888	—	—	—	—	412	—	—	440,300
Amortization of long-term prepaid charges	1,496	—	—	—	—	—	—	—	1,496
Other	9,393	—	—	—	—	—	—	—	9,393
Total operating expenses	**465,180**	**177,763**	**760,925**	**232,372**	**41,671**	**659,151**	**389,246**	**284,223**	**3,010,531**
Operating income (loss)	(33,290)	(335)	10,047	(12,050)	42,992	(104,323)	6,290	55,121	(35,548)
NONOPERATING REVENUES (EXPENSES)									
Investment and interest income	—	—	—	168	—	112	—	295	575
Interest expense and fiscal charges	—	—	—	(3)	—	—	—	—	(3)
Loss on early extinguishment of debt	(54,537)	—	—	—	—	—	—	—	(54,537)
Other	—	—	—	(485)	—	(1,070)	—	—	(1,555)
Total nonoperating revenues (expenses)	**(54,537)**	**—**	**—**	**(320)**	**—**	**(958)**	**—**	**295**	**(55,520)**
Income (loss) before transfers	(87,827)	(335)	10,047	(12,370)	42,992	(105,281)	6,290	55,416	(91,068)
Transfers in	6,649	—	—	—	3,394	63,614	—	3,000	76,657
Transfers out	—	—	(38,676)	—	—	—	—	(71,194)	(109,870)
Change in net position	(81,178)	(335)	(28,629)	(12,370)	46,386	(41,667)	6,290	(12,778)	(124,281)
Total net position (deficit) – beginning	**368,579** *	**(26,325)**	**(143,531)**	**175,323**	**14,533** *	**88,501**	**(57,680)**	**252,280** [1]	**671,680**
Total net position (deficit) – ending	**$ 287,401**	**$ (26,660)**	**$ (172,160)**	**$ 162,953**	**$ 60,919**	**$ 46,834**	**$ (51,390)**	**$ 239,502**	**$ 547,399**

* Restated

[1] The Financial Information Systems Fund was included in the Other Internal Service Programs column in the prior fiscal year and the Office of Systems Integration Fund that was reported in its own column in the prior fiscal year is now included in the Other Internal Service Programs column.

Combining Statement of Cash Flows

Internal Service Funds

Year Ended June 30, 2014

(amounts in thousands)

	Public Buildings Construction	Architecture Revolving	Service Revolving	Prison Industries	Financial Information Systems	Technology Services Revolving	Water Resources Revolving	Other Internal Service Programs	Total
CASH FLOWS FROM OPERATING ACTIVITIES									
Receipts from customers	$ 764,575	$ 184,493	$ 782,741	$ 220,589	$ 86,769	$ 551,645	$ 397,849	$ 339,531	$ 3,328,192
Receipts from interfund services provided	—	10,342	—	6,407	16,145	2,834	90	95,995	131,813
Payments to suppliers	(879)	(148,737)	(498,158)	(154,781)	(28,808)	(404,713)	(3,135)	(324,301)	(1,563,512)
Payments to employees	—	(27,931)	(217,607)	(54,123)	—	(138,615)	(389,192)	(15,533)	(843,001)
Payments for interfund services used	—	—	(30,613)	(10,340)	—	(47,330)	—	(5,212)	(93,495)
Other receipts (payments)	(450,930)	11	(5,356)	(139)	—	9,216	(1,175)	(3,131)	(451,504)
Net cash provided by (used in) operating activities	**312,766**	**18,178**	**31,007**	**7,613**	**74,106**	**(26,963)**	**4,437**	**87,349**	**508,493**
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES									
Changes in interfund payables and loans payable	—	—	(556)	—	—	(112)	(7)	1,242	567
Interest paid on operating debt	—	—	—	(3)	—	(412)	—	—	(415)
Transfers in	6,649	—	—	—	3,394	63,614	—	3,000	76,657
Transfers out	—	—	(38,676)	—	—	—	—	(71,194)	(109,870)
Net cash provided by (used in) noncapital financing activities	**6,649**	**—**	**(39,232)**	**(3)**	**3,394**	**63,090**	**(7)**	**(66,952)**	**(33,061)**
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES									
Acquisition of capital assets	(1,217,406)	—	(21,159)	(9,220)	(41,058)	(48,273)	(1,348)	(29)	(1,338,493)
Proceeds from sale of capital assets	—	—	167	586	—	17,805	—	—	18,558
Proceeds from revenue bonds	2,323,173	—	—	—	—	—	—	—	2,323,173
Retirement of revenue bonds	(412,085)	—	—	—	—	—	—	—	(412,085)
Net cash used in capital and related financing activities	693,682	—	(20,992)	(8,634)	(41,058)	(30,468)	(1,348)	(29)	591,153
CASH FLOWS FROM INVESTING ACTIVITIES									
Earnings on investments	—	—	—	169	—	112	—	295	576
Net cash provided by (used in) investing activities	**—**	**—**	**—**	**169**	**—**	**112**	**—**	**295**	**576**
Net increase (decrease) in cash and pooled investments	1,013,097	18,178	(29,217)	(855)	36,442	5,771	3,082	20,663	1,067,161
Cash and pooled investments – beginning	**2,728,900**	**256,790**	**112,102**	**169,364**	**7,576**	**42,202**	**10,971**	**342,006**	**3,669,911**
Cash and pooled investments – ending	**$ 3,741,997**	**$ 274,968**	**$ 82,885**	**$ 168,509**	**$ 44,018**	**$ 47,973**	**$ 14,053**	**$ 362,669**	**$ 4,737,072**

(continued)

Combining Statement of Cash Flows (continued)

Internal Service Funds

Year Ended June 30, 2014
(amounts in thousands)

	Public Buildings Construction	Architecture Revolving	Service Revolving	Prison Industries	Financial Information Systems	Technology Services Revolving	Water Resources Revolving	Other Internal Service Programs	Total
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES									
Operating income (loss)	$ (33,290)	$ (335)	$ 10,047	$ (12,050)	$ 42,992	$ (104,323)	$ 6,290	$ 55,121	$ (35,548)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:									
Interest expense on operating debt	—	—	—	—	—	412	—	—	412
Depreciation	—	—	9,591	6,135	302	30,275	1,349	251	47,903
Amortization of premiums and discounts	(44,113)	—	—	—	—	—	—	—	(44,113)
Amortization of long-term prepaid charges	18,058	—	—	—	—	—	—	—	18,058
Other	21,738	—	—	(13,140)	—	—	—	—	8,598
Change in assets, deferred outflows of resources, and liabilities, deferred inflows of resources:									
Receivables	—	54	10,644	(873)	—	(3,183)	2,348	187	9,177
Due from other funds	(43,651)	10,865	(2,195)	2,332	2,106	(222,565)	95	324,097	71,084
Due from other governments	—	—	(12,712)	(103)	18,390	(268)	—	5	5,312
Prepaid items	—	(1,979)	(9,801)	(101)	(4,128)	(94)	401	1,016	(14,686)
Inventories	8,094	—	1,061	3,004	—	3,931	214	—	16,304
Net investment in direct financing leases	389,895	—	—	—	—	—	—	—	389,895
Accounts payable	(312)	2,173	934	(2,994)	16,293	56,199	1,238	(70,736)	2,795
Due to other funds	557	(523)	(13,296)	17,250	(2,245)	178,069	(5)	(238,851)	(59,044)
Due to component units	(837)	—	—	—	—	(1,191)	—	(31)	(2,059)
Due to other governments	—	—	162	—	—	451	(28)	—	585
Deposits	—	—	(47)	—	—	—	—	—	(47)
Contracts and notes payable	—	—	593	—	—	3,894	—	—	4,487
Interest payable	(3,370)	—	—	—	—	—	—	—	(3,370)
Revenues received in advance	(3)	7,011	1,125	(1,090)	—	—	(35)	—	7,008
Other current liabilities	—	(42)	4,835	1,437	(691)	(4,277)	(1,147)	(1,421)	(1,306)
Benefits payables	—	1,792	37,507	—	—	22,967	—	2,705	64,971
Compensated absences payable	—	(838)	(7,441)	(695)	1,087	8,915	(6,283)	(338)	(5,593)
Other noncurrent liabilities	—	—	—	8,501	—	3,825	—	15,344	27,670
Total adjustments	346,056	18,513	20,960	19,663	31,114	77,360	(1,853)	32,228	544,041
Net cash provided by (used in) operating activities	**$ 312,766**	**$ 18,178**	**$ 31,007**	**$ 7,613**	**$ 74,106**	**$ (26,963)**	**$ 4,437**	**$ 87,349**	**$ 508,493**

(concluded)

	Public Buildings Construction	Architecture Revolving	Service Revolving	Prison Industries	Financial Information Systems	Technology Services Revolving	Water Resources Revolving	Other Internal Service Programs	Total
Noncash investing, capital, and financing activities									
Debt restructure and termination of direct financing leases	$ 114,285	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ 114,285

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Nonmajor Enterprise Funds

Enterprise funds account for operations that are financed and operated in a manner similar to private business enterprises, in which the costs of providing goods or services to the general public on a continuing basis are intended to be financed or recovered primarily through user charges. Following are brief descriptions of nonmajor enterprise funds.

The **High Technology Education Fund** accounts for construction and renovation of public buildings for educational and research purposes related to specific fields of high technology. During the fiscal year, all outstanding revenue bonds were defeased and the related lease receivable was terminated. The fund's remaining assets were transferred to an escrow account with the State Treasurer and the fund was dissolved.

The **State Water Pollution Control Revolving Fund** accounts for loans to finance the construction of publicly owned water pollution control facilities.

The **Housing Loan Fund** accounts for financing and contracts for the sale of properties to eligible California veterans.

Other enterprise program funds account for all other goods or services provided to the general public on a continuing basis when all or most of the cost involved is to be financed by user charges, or when periodic measurement of the results of operations is appropriate for management control, accountability, capital maintenance, public policy, or other purposes.

Combining Statement of Net Position

Nonmajor Enterprise Funds

June 30, 2014
(amounts in thousands)

	High Technology Education	State Water Pollution Control Revolving	Housing Loan	Other Enterprise Programs	Total
ASSETS					
Current assets:					
Cash and pooled investments	$ —	$ 309,447	$ 101,681	$ 252,288	$ 663,416
Restricted assets:					
Cash and pooled investments	—	25,975	—	—	25,975
Due from other governments	—	20,182	—	—	20,182
Receivables (net)	—	—	32,096	225	32,321
Due from other funds	—	382	63	227	672
Due from other governments	—	205,886	—	612	206,498
Prepaid items	—	—	—	27	27
Inventories	—	—	—	3,124	3,124
Total current assets	—	561,872	133,840	256,503	952,215
Noncurrent assets:					
Restricted assets:					
Loans receivable	—	305,278	—	—	305,278
Investments	—	—	25,202	—	25,202
Interfund receivables	—	4,000	—	1,600	5,600
Loans receivable	—	2,853,583	801,845	120,159	3,775,587
Capital assets:					
Land	—	—	443	829	1,272
Buildings and other depreciable property	—	—	16,260	1,878	18,138
Intangible assets – amortizable	—	—	—	1,500	1,500
Less: accumulated depreciation/amortization	—	—	(15,827)	(1,486)	(17,313)
Intangible assets – non-amortizable	—	—	—	222	222
Other noncurrent assets	—	—	5,586	—	5,586
Total noncurrent assets	—	3,162,861	833,509	124,702	4,121,072
Total assets	**$ —**	**$ 3,724,733**	**$ 967,349**	**$ 381,205**	**$ 5,073,287**

(continued)

Combining Statement of Net Position (continued)

Nonmajor Enterprise Funds

June 30, 2014
(amounts in thousands)

	High Technology Education	State Water Pollution Control Revolving	Housing Loan	Other Enterprise Programs	Total
LIABILITIES					
Current liabilities:					
Accounts payable	$ —	$ —	$ —	$ 2,637	$ 2,637
Due to other funds	—	162	198	1,192	1,552
Due to other governments	—	—	—	7	7
Revenues received in advance	—	7	—	25	32
Interest payable	—	469	10,975	—	11,444
Current portion of long-term obligations	—	14,339	—	11,917	26,256
Other current liabilities	—	—	—	126	126
Total current liabilities	—	14,977	11,173	15,904	42,054
Noncurrent liabilities:					
Compensated absences payable	—	—	—	2,739	2,739
General obligation bonds payable	—	—	432,357	—	432,357
Revenue bonds payable	—	44,897	370,750	—	415,647
Net other postemployment benefits obligation	—	—	1,538	6,867	8,405
Other noncurrent liabilities	—	—	623	73,086	73,709
Total noncurrent liabilities	—	44,897	805,268	82,692	932,857
Total liabilities	**—**	**59,874**	**816,441**	**98,596**	**974,911**
NET POSITION					
Net investment in capital assets	—	—	876	2,948	3,824
Restricted – expendable:					
Debt service	—	25,975	—	—	25,975
Security for revenue bonds	—	325,460	—	—	325,460
Other purposes	—	—	150,032	204,383	354,415
Total expendable	—	351,435	150,032	204,383	705,850
Unrestricted	—	3,313,424	—	75,278	3,388,702
Total net position	**—**	**3,664,859**	**150,908**	**282,609**	**4,098,376**
Total liabilities and net position	**$ —**	**$ 3,724,733**	**$ 967,349**	**$ 381,205**	**$ 5,073,287**

(concluded)

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

Nonmajor Enterprise Funds

Year Ended June 30, 2014

(amounts in thousands)

	High Technology Education	State Water Pollution Control Revolving	Housing Loan	Other Enterprise Programs	Total
OPERATING REVENUES					
Services and sales	$ —	$ 8,018	$ 1,220	$ 74,286	$ 83,524
Investment and interest	27	54,112	62,442	96	116,677
Rent	397	—	—	647	1,044
Other	—	—	1,585	2,222	3,807
Total operating revenues	**424**	**62,130**	**65,247**	**77,251**	**205,052**
OPERATING EXPENSES					
Personal services	—	816	8,431	5,714	14,961
Services and charges	—	2,969	10,453	73,581	87,003
Depreciation	—	—	115	346	461
Interest expense	847	—	37,639	—	38,486
Other	—	923	568	—	1,491
Total operating expenses	**847**	**4,708**	**57,206**	**79,641**	**142,402**
Operating income (loss)	(423)	57,422	8,041	(2,390)	62,650
NONOPERATING REVENUES (EXPENSES)					
Investment and interest income	—	855	—	420	1,275
Interest expense and fiscal charges	—	(355)	—	—	(355)
Loss on early extinguishment of debt	(26,913)	—	—	—	(26,913)
Other	—	(9)	—	—	(9)
Total nonoperating revenues (expenses)	**(26,913)**	**491**	**—**	**420**	**(26,002)**
Income (loss) before capital contributions and transfers	(27,336)	57,913	8,041	(1,970)	36,648
Capital contributions	—	80,903	—	—	80,903
Transfers out	(6,649)	—	—	(199)	(6,848)
Change in net position	(33,985)	138,816	8,041	(2,169)	110,703
Total net position – beginning	**33,985**	**3,526,043**	**142,867**	**284,778**	**3,987,673**
Total net position – ending	**$ —**	**$ 3,664,859**	**$ 150,908**	**$ 282,609**	**$ 4,098,376**

Combining Statement of Cash Flows

Nonmajor Enterprise Funds

Year Ended June 30, 2014

(amounts in thousands)

	High Technology Education	State Water Pollution Control Revolving	Housing Loan	Other Enterprise Programs	Total
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers/employers	$ —	$ 51,417	$ 239,470	$ 76,648	$ 367,535
Receipts from interfund services provided	—	—	—	419	419
Payments to suppliers	—	(3,891)	(6,869)	(74,778)	(85,538)
Payments to employees	—	(816)	(8,431)	(4,286)	(13,533)
Payments for interfund services used	—	(60)	—	(890)	(950)
Other receipts (payments)	11,006	(169,328)	(112,274)	10,498	(260,098)
Net cash provided by (used in) operating activities	**11,006**	**(122,678)**	**111,896**	**7,611**	**7,835**
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Retirement of general obligation bonds	—	—	(151,715)	—	(151,715)
Retirement of revenue bonds	(24,771)	(13,000)	(47,620)	—	(85,391)
Interest paid on operating debt	—	(2,080)	—	—	(2,080)
Transfers out	(6,649)	—	—	(199)	(6,848)
Net cash provided by (used in) noncapital financing activities	**(31,420)**	**(15,080)**	**(199,335)**	**(199)**	**(246,034)**
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Acquisition of capital assets	—	—	(128)	(302)	(430)
Grants received	—	82,351	—	—	82,351
Net cash provided by (used in) capital and related financing activities	**—**	**82,351**	**(128)**	**(302)**	**81,921**
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of investments	—	—	(2,500)	—	(2,500)
Earnings (loss) on investments	—	890	—	420	1,310
Net cash provided by (used in) investing activities	**—**	**890**	**(2,500)**	**420**	**(1,190)**
Net increase (decrease) in cash and pooled investments	(20,414)	(54,517)	(90,067)	7,530	(157,468)
Cash and pooled investments – beginning	**20,414**	**389,939**	**191,748**	**244,758**	**846,859**
Cash and pooled investments – ending	**$ —**	**$ 335,422**	**$ 101,681**	**$ 252,288**	**$ 689,391**

(continued)

Combining Statement of Cash Flows (continued)

Nonmajor Enterprise Funds

Year Ended June 30, 2014

(amounts in thousands)

	High Technology Education	State Water Pollution Control Revolving	Housing Loan	Other Enterprise Programs	Total
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES					
Operating income (loss)	$ (423)	$ 57,422	$ 8,041	$ (2,390)	$ 62,650
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:					
Depreciation	—	—	115	346	461
Provisions and allowances	—	—	(3,586)	—	(3,586)
Amortization of premiums and discounts	4	—	501	—	505
Amortization of long-term prepaid charges	948	—	—	—	948
Other	1,797	(10,846)	569	—	(8,480)
Change in assets, deferred outflows of resources, and liabilities, deferred inflows of resources:					
Receivables	298	—	1,856	54	2,208
Due from other funds	20	(3)	(14)	8	11
Due from other governments	—	715	64	671	1,450
Prepaid items	—	—	—	(26)	(26)
Inventories	—	—	—	(425)	(425)
Net investment in direct financing leases	8,468	—	—	—	8,468
Other current assets	—	—	98	—	98
Loans receivable	—	(169,911)	105,200	882	(63,829)
Accounts payable	—	—	—	(1,662)	(1,662)
Due to other funds	—	(58)	27	(935)	(966)
Due to other governments	—	—	—	4	4
Interest payable	(106)	—	—	—	(106)
Revenues received in advance	—	—	—	(11)	(11)
Other current liabilities	—	3	(1,199)	11,940	10,744
Benefits payables	—	—	(26)	106	80
Compensated absences payable	—	—	—	24	24
Other noncurrent liabilities	—	—	250	(975)	(725)
Total adjustments	11,429	(180,100)	103,855	10,001	(54,815)
Net cash provided by (used in) operating activities	**$ 11,006**	**$ (122,678)**	**$ 111,896**	**$ 7,611**	**$ 7,835**

(concluded)

Debt restructure and termination of direct financing leases	$ 22,006	$ —	$ —	$ —	$ 22,006

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Private Purpose Trust Funds

Private purpose trust funds account for all trust arrangements, other than those properly reported in pension and other employee benefit trust funds or investment trust funds, under which both principal and income benefit individuals, private organizations, or other governments. Following are brief descriptions of private purpose trust funds.

The **Scholarshare Program Trust 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.

Other private purpose trust funds account for other assets held in a trustee capacity when both principal and income benefit individuals, private organizations, or other governments.

Combining Statement of Fiduciary Net Position

Private Purpose Trust Funds

June 30, 2014
(amounts in thousands)

	Scholarshare Program Trust	Unclaimed Property	Other Private Purpose Trust	Total
ASSETS				
Cash and pooled investments	$ 6	$ 32,457	$ 17,433	$ 49,896
Investments, at fair value:				
Equity securities	3,218,383	—	—	3,218,383
Debt securities	1,844,304	—	—	1,844,304
Real estate	188,273	—	—	188,273
Other	777,884	—	—	777,884
Total investments	6,028,844	—	—	6,028,844
Receivables (net)	8,482	17	—	8,499
Due from other funds	—	85,919	10	85,929
Other assets	—	172,661	—	172,661
Total assets	**6,037,332**	**291,054**	**17,443**	**6,345,829**
LIABILITIES				
Accounts payable	9,008	6,991	15,336	31,335
Deposits	—	172,661	—	172,661
Other liabilities	—	—	938	938
Total liabilities	**9,008**	**179,652**	**16,274**	**204,934**
NET POSITION				
Held in trust for benefits and other purposes	**$ 6,028,324**	**$ 111,402**	**$ 1,169**	**$ 6,140,895**

Combining Statement of Changes in Fiduciary Net Position

Private Purpose Trust Funds

Year Ended June 30, 2014
(amounts in thousands)

	Scholarshare Program Trust	Unclaimed Property	Other Private Purpose Trust	Total
ADDITIONS				
Investment income:				
Net appreciation in fair value of investments	$ 512,830	$ —	$ —	$ 512,830
Interest, dividends, and other investment income	244,806	—	—	244,806
Less: investment expense	(4,023)	—	—	(4,023)
Net investment income	753,613	—	—	753,613
Receipts from depositors	2,753,223	290,820	15,712	3,059,755
Total additions	**3,506,836**	**290,820**	**15,712**	**3,813,368**
DEDUCTIONS				
Administrative expenses	—	—	3	3
Payments to and for depositors	2,534,290	277,365	15,471	2,827,126
Total deductions	**2,534,290**	**277,365**	**15,474**	**2,827,129**
Change in net position	972,546	13,455	238	986,239
Net position – beginning	**5,055,778**	**97,947**	**931**	**5,154,656**
Net position – ending	**$ 6,028,324**	**$ 111,402**	**$ 1,169**	**$ 6,140,895**

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Fiduciary Funds and Similar Component Units – Pension and Other Employee Benefit Trust Funds

Pension and other employee benefit trust funds account for transactions, assets, liabilities, and net position available for pension and other employee benefits of the two public employees' retirement systems that are fiduciary component units and for other primary government employee benefit programs. Following are brief descriptions of pension and other employee benefit trust funds.

Defined Benefit Pension Plans are pension plans that are used to provide defined benefit pensions to employees after separation from service:

The **Public Employees' Retirement Fund** is administered by the California Public Employees' Retirement System (CalPERS) and accounts for the employee and employer contributions of the agent multiple-employer retirement plan that provides pension benefits to employees of the State of California, non-teaching school employees, and employees of California public agencies.

The **State Teachers' Retirement Fund** is administered by the California State Teachers' Retirement System (CalSTRS) and accounts for the employee, employer, and primary government contributions of the cost-sharing multiple-employer retirement plan that provides pension benefits to teachers and certain other employees of the California public school system.

The **Judges' Retirement Fund** is administered by CalPERS and accounts for the employee and employer contributions of the single-employer retirement plan that provides pension benefits to judges of the California Supreme Court, courts of appeal, and superior courts who were appointed or elected prior to November 9, 1994.

The **Judges' Retirement Fund II** is administered by CalPERS and accounts for the employee and employer contributions of the single-employer retirement plan that provides pension benefits to judges of the California Supreme Court, courts of appeal, and superior courts who were appointed or elected on or subsequent to November 9, 1994.

The **Legislators' Retirement Fund** is administered by CalPERS and accounts for the employee and employer contributions of the single-employer retirement plan that provides pension benefits to members of the Legislature serving prior to November 7, 1990, constitutional officers, and legislative statutory officers who elect to participate in the plan.

(continued)

(continued)

The **Deferred Compensation Fund** accounts for monies withheld from the salaries of participants per Internal Revenue Code sections 401(k), 457, and 403(b). The monies are invested until the employee retires or resigns, at which time all money withdrawn, including investment income, is subject to income taxes.

Other pension and other employee benefit trust funds account for funds contributed to smaller retirement plans and programs that are not defined benefit pension plans: Annuitants' Health Care Coverage Fund, Teachers' Health Benefits Fund, State Peace Officers' and Firefighters' Defined Contribution Plan Fund, Supplemental Contributions Program Fund, Boxers' Pension Fund, and Flexelect Benefit Fund.

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Combining Statement of Fiduciary Net Position

Fiduciary Funds and Similar Component Units – Pension and Other Employee Benefit Trust Funds

June 30, 2014
(amounts in thousands)

	Defined Benefit		Pension Plans					
	Public Employees' Retirement	State Teachers' Retirement	Judges' Retirement	Judges' Retirement II	Legislators' Retirement	Deferred Compensation	Other Pension and Other Employee Benefit Trust	Total
ASSETS								
Cash and pooled investments	$ 2,149,212	$ 457,219	$ 3,933	$ 2,963	$ 1,233	$ 16,439	$ 56,934	$ 2,687,933
Investments, at fair value:								
Short-term	8,232,423	4,371,070	51,155	5	4	237,585	118,296	13,010,538
Equity securities	158,161,501	102,089,007	—	739,691	55,582	6,722,789	3,089,827	270,858,397
Debt securities	72,465,033	31,972,479	—	260,112	73,735	3,606,373	1,105,488	109,483,220
Real estate	29,580,354	23,673,246	—	—	—	—	—	53,253,600
Other	31,512,577	29,614,996	—	—	—	1,751,529	—	62,879,102
Securities lending collateral	17,249,281	22,303,191	—	78,033	8,581	—	60,551	39,699,637
Total investments	317,201,169	214,023,989	51,155	1,077,841	137,902	12,318,276	4,374,162	549,184,494
Receivables (net)	1,775,492	3,102,990	2,886	10,979	596	16,464	107,328	5,016,735
Due from other funds	500,614	66,894	13	4	—	10	17	567,552
Due from other governments	—	18,491	—	—	—	10	—	18,501
Loans receivable	—	21,620	—	—	—	385	—	22,005
Other assets	701,798	229,079	—	—	—	—	—	930,877
Total assets	**322,328,285**	**217,920,282**	**57,987**	**1,091,787**	**139,731**	**12,351,584**	**4,538,441**	**558,428,097**
LIABILITIES								
Accounts payable	16,203	2,944,928	—	147	—	1,883	3,141	2,966,302
Benefits payable	1,505,516	1,120,499	10	—	649	421	28,210	2,655,305
Securities lending obligations	17,089,383	22,311,298	—	77,478	8,520	—	60,120	39,546,799
Loans payable	—	944,269	—	—	—	—	—	944,269
Other liabilities	1,955,644	125,272	778	323	208	3,884	4,509	2,090,618
Total liabilities	**20,566,746**	**27,446,266**	**788**	**77,948**	**9,377**	**6,188**	**95,980**	**48,203,293**
NET POSITION								
Restricted for pension benefits, pool participants, and other employee benefits	**$ 301,761,539**	**$ 190,474,016**	**$ 57,199**	**$ 1,013,839**	**$ 130,354**	**$ 12,345,396**	**$ 4,442,461**	**$ 510,224,804**

Combining Statement of Changes in Fiduciary Net Position

Fiduciary Funds and Similar Component Units – Pension and Other Employee Benefit Trust Funds

Year Ended June 30, 2014
(amounts in thousands)

		Defined Benefit	Pension Plans				Other Pension	
	Public Employees' Retirement	State Teachers' Retirement	Judges' Retirement	Judges' Retirement II	Legislators' Retirement	Deferred Compensation	and Other Employee Benefit Trust	Total
ADDITIONS								
Contributions:								
Employer	$ 8,777,602	$ 3,655,634	$ 191,148	$ 57,027	$ 565	$ 900	$ 1,714,491	$ 14,397,367
Plan member	3,775,038	2,263,613	4,724	20,413	113	863,633	31,457	6,958,991
Total contributions	12,552,640	5,919,247	195,872	77,440	678	864,533	1,745,948	21,356,358
Investment income:								
Net appreciation (depreciation) in fair value of investments	44,413,007	26,092,999	—	149,975	15,379	221,370	587,615	71,480,345
Interest, dividends, and other investment income	2,641,267	4,613,173	59	629	51	1,325,402	427	8,581,008
Less: investment expense	(1,463,801)	(304,269)	(5)	(436)	(58)	(802)	(1,761)	(1,771,132)
Net investment income	45,590,473	30,401,903	54	150,168	15,372	1,545,970	586,281	78,290,221
Other	7,571	2,055	2,529	—	—	12,482	7,815	32,452
Total additions	**58,150,684**	**36,323,205**	**198,455**	**227,608**	**16,050**	**2,422,985**	**2,340,044**	**99,679,031**
DEDUCTIONS								
Distributions to beneficiaries	17,760,584	11,927,565	193,925	8,865	7,482	22,531	1,085,134	31,006,086
Refunds of contributions	236,968	107,600	10	85	—	99,956	—	444,619
Administrative expense	381,497	162,933	1,141	785	362	12,948	5,546	565,212
Interest expense	—	—	—	—	—	—	—	—
Payments to and for depositors	—	—	—	—	—	580,203	38,598	618,801
Total deductions	**18,379,049**	**12,198,098**	**195,076**	**9,735**	**7,844**	**715,638**	**1,129,278**	**32,634,718**
Change in net position	39,771,635	24,125,107	3,379	217,873	8,206	1,707,347	1,210,766	67,044,313
Net position – beginning	**261,989,904**	**166,348,909**	**53,820** [1]	**795,966** [1]	**122,148** [1]	**10,638,049**	**3,231,695** [1]	**443,180,491**
Net position – ending	**$ 301,761,539**	**$ 190,474,016**	**$ 57,199**	**$ 1,013,839**	**$ 130,354**	**$ 12,345,396**	**$ 4,442,461**	**$ 510,224,804**

[1] Judges' Retirement, Judges' Retirement II, and Legislators' Retirement funds were included in the Other Pension and Other Employee Benefit Trust funds column in the prior year.

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Agency Funds

Agency funds account for the receipt and disbursement of various taxes, deposits, deductions, and property collected by the State, acting in the capacity of an agent, for distribution to other governmental units or other organizations. Following are brief descriptions of agency funds.

The **Receipting and Disbursing Fund** accounts for the collection and disbursement of revenues and receipts on behalf of local governments. This fund also accounts for receipts from many state funds, typically for the purpose of writing a single warrant when the warrant is funded by multiple funding sources.

The **Deposit Fund** accounts for various deposits, such as those from condemnation and litigation proceedings.

Other agency activity funds account for other assets held by the State, which acts as an agent for individuals, private organizations, and other governments.

Combining Statement of Fiduciary Assets and Liabilities

Agency Funds

June 30, 2014
(amounts in thousands)

	Receipting and Disbursing	Deposit	Other Agency Activities	Total
ASSETS				
Cash and pooled investments	$ 2,190,374	$ 1,467,960	$ 23,893	$ 3,682,227
Receivables (net)	2,019,572	108,472	1,518	2,129,562
Due from other funds	20,690,185	2,755	769	20,693,709
Due from other governments	7,652	10	—	7,662
Prepaid items	28,734	194	—	28,928
Loans receivable	—	—	7,257	7,257
Other assets	55	38	—	93
Total assets	**$ 24,936,572**	**$ 1,579,429**	**$ 33,437**	**$ 26,549,438**
LIABILITIES				
Accounts payable	$ 14,886,495	$ 52,793	$ 3,081	$ 14,942,369
Due to other governments	9,974,859	2,329	7,045	9,984,233
Tax overpayments	4,632	—	—	4,632
Revenues received in advance	21,053	1,072	—	22,125
Deposits	39,160	940,470	7,973	987,603
Other liabilities	10,373	582,765	15,338	608,476
Total liabilities	**$ 24,936,572**	**$ 1,579,429**	**$ 33,437**	**$ 26,549,438**

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Combining Statement of Changes in Fiduciary Assets and Liabilities

Agency Funds

Year Ended June 30, 2014
(amounts in thousands)

Receipting and Disbursing Fund

	Balance July 1, 2013	Additions	Deductions	Balance June 30, 2014
ASSETS				
Cash and pooled investments	$ 2,369,714	$ 154,687,200	$ 154,866,540	$ 2,190,374
Receivables (net)	1,377,732	3,490,419	2,848,579	2,019,572
Due from other funds	18,212,542	22,905,077	20,427,434	20,690,185
Due from other governments	20,763	583	13,694	7,652
Prepaid items	11,867	28,734	11,867	28,734
Other assets	55	—	—	55
Total assets	**$ 21,992,673**	**$ 181,112,013**	**$ 178,168,114**	**$ 24,936,572**
LIABILITIES				
Accounts payable	$ 10,013,095	$ 45,988,721	$ 41,115,321	$ 14,886,495
Due to other governments	11,685,759	29,189,519	30,900,419	9,974,859
Tax overpayments	684	76,390	72,442	4,632
Benefits payable	220,767	—	220,767	—
Revenues received in advance	17,688	3,393	28	21,053
Deposits	40,547	—	1,387	39,160
Other liabilities	14,133	—	3,760	10,373
Total liabilities	**$ 21,992,673**	**$ 75,258,023**	**$ 72,314,124**	**$ 24,936,572**

Deposit Fund

	Balance July 1, 2013	Additions	Deductions	Balance June 30, 2014
ASSETS				
Cash and pooled investments	$ 1,569,454	$ 18,576,666	$ 18,678,160	$ 1,467,960
Receivables (net)	98,485	219,384	209,397	108,472
Due from other funds	57,832	318	55,395	2,755
Due from other governments	285	391	666	10
Prepaid items	166	28	—	194
Other assets	32	21	15	38
Total assets	**$ 1,726,254**	**$ 18,796,808**	**$ 18,943,633**	**$ 1,579,429**
LIABILITIES				
Accounts payable	$ 69,213	$ 568,579	$ 584,999	$ 52,793
Due to other governments	1,910	3,496	3,077	2,329
Revenues received in advance	813	14,211	13,952	1,072
Deposits	943,471	633,530	636,531	940,470
Other liabilities	710,847	17,977,336	18,105,418	582,765
Total liabilities	**$ 1,726,254**	**$ 19,197,152**	**$ 19,343,977**	**$ 1,579,429**

Other Agency Activity Funds

	Balance July 1, 2013	Additions	Deductions	Balance June 30, 2014
ASSETS				
Cash and pooled investments	$ 29,377	$ 2,578	$ 8,062	$ 23,893
Receivables (net)	1,514	4	—	1,518
Due from other funds	690	79	—	769
Loans receivable	7,153	104	—	7,257
Total assets	**$ 38,734**	**$ 2,765**	**$ 8,062**	**$ 33,437**
LIABILITIES				
Accounts payable	$ 2,619	$ 462	$ —	$ 3,081
Due to other governments	14,666	2	7,623	7,045
Deposits	5,500	2,473	—	7,973
Other liabilities	15,949	—	611	15,338
Total liabilities	**$ 38,734**	**$ 2,937**	**$ 8,234**	**$ 33,437**

Total Agency Funds

	Balance July 1, 2013	Additions	Deductions	Balance June 30, 2014
ASSETS				
Cash and pooled investments	$ 3,968,545	$ 173,266,444	$ 173,552,762	$ 3,682,227
Receivables (net)	1,477,731	3,709,807	3,057,976	2,129,562
Due from other funds	18,271,064	22,905,474	20,482,829	20,693,709
Due from other governments	21,048	974	14,360	7,662
Prepaid items	12,033	28,762	11,867	28,928
Loans receivable	7,153	104	—	7,257
Other assets	87	21	15	93
Total assets	**$ 23,757,661**	**$ 199,911,586**	**$ 197,119,809**	**$ 26,549,438**
LIABILITIES				
Accounts payable	$ 10,084,927	$ 46,557,762	$ 41,700,320	$ 14,942,369
Due to other governments	11,702,335	29,193,017	30,911,119	9,984,233
Tax overpayments	684	76,390	72,442	4,632
Benefits payable	220,767	—	220,767	—
Revenues received in advance	18,501	17,604	13,980	22,125
Deposits	989,518	636,003	637,918	987,603
Other liabilities	740,929	17,977,336	18,109,789	608,476
Total liabilities	**$ 23,757,661**	**$ 94,458,112**	**$ 91,666,335**	**$ 26,549,438**

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Nonmajor Component Units

Nonmajor component units are legally separate entities that are discretely presented in the State's financial statements in accordance with Generally Accepted Accounting Principles (GAAP). The inclusion of component units in the State's financial statements reflects the State's financial accountability or relationships with these organizations such that exclusion would cause the State's financial statements to be misleading. Following are brief descriptions of the nonmajor consolidated component unit segments.

California State University Auxiliary organizations provide services primarily to university students through foundations, associated student organizations, student unions, food service entities, book stores, and similar organizations.

Financing authorities provide financing for transportation, business development and public improvements, and coastal and inland urban waterfront restoration projects. These agencies include: California Alternative Energy and Advanced Transportation Financing Authority, California Infrastructure and Economic Development Bank, and the California Urban Waterfront Area Restoration Financing Authority.

District agricultural associations were created to exhibit all of the industries, industrial enterprises, resources, and products of the State. The financial information presented is as of and for the year ended December 31, 2013.

Other component units provide legal education programs, financial assistance to businesses, and health benefits for state employees and annuitants. These entities include: University of California Hastings College of the Law; State Assistance Fund for Enterprise, Business and Industrial Development Corporation; and Public Employees' Contingency Reserve.

Combining Statement of Net Position

Nonmajor Component Units

June 30, 2014
(amounts in thousands)

	Financing Authorities	California State University Auxiliary Organizations	District Agricultural Associations	Other Component Units	Total
ASSETS					
Current assets:					
Cash and pooled investments	$ 32,309	$ 405,558	$ 81,769	$ 429,521	$ 949,157
Investments	—	399,561	4,839	—	404,400
Restricted assets:					
Cash and pooled investments	124,554	—	1,058	2,905	128,517
Investments	8,941	—	6,988	—	15,929
Receivables (net)	17,667	390,597	4,549	34,619	447,432
Due from primary government	—	—	—	1,212	1,212
Prepaid items	—	—	647	95	742
Other current assets	—	31,919	430	—	32,349
Total current assets	183,471	1,227,635	100,280	468,352	1,979,738
Noncurrent assets:					
Restricted assets:					
Cash and pooled investments	—	26,725	—	—	26,725
Investments	9,586	—	4,700	—	14,286
Investments	—	1,771,674	—	69,360	1,841,034
Receivables (net)	—	237,243	—	15,387	252,630
Loans receivable	278,257	—	—	7,197	285,454
Capital assets:					
Land	—	111,745	22,232	5,089	139,066
Collections – nondepreciable	—	8,401	—	—	8,401
Buildings and other depreciable property	1,700	1,159,412	694,056	139,959	1,995,127
Intangible assets – amortizable	841	10,686	—	1,051	12,578
Less: accumulated depreciation/amortization	(2,541)	(493,812)	(422,693)	(53,656)	(972,702)
Construction in progress	—	9,891	9,323	143	19,357
Intangible assets – non-amortizable	—	5,082	—	—	5,082
Other noncurrent assets	—	42,245	—	8,506	50,751
Total noncurrent assets	287,843	2,889,292	307,618	193,036	3,677,789
Total assets	**471,314**	**4,116,927**	**407,898**	**661,388**	**5,657,527**
DEFERRED OUTFLOWS OF RESOURCES	**865**	**5,204**	**—**	**—**	**6,069**
Total assets and deferred outflows of resources	**$ 472,179**	**$ 4,122,131**	**$ 407,898**	**$ 661,388**	**$ 5,663,596**

(continued)

Combining Statement of Net Position (continued)

Nonmajor Component Units

June 30, 2014
(amounts in thousands)

	Financing Authorities	California State University Auxiliary Organizations	District Agricultural Associations	Other Component Units	Total
LIABILITIES					
Current liabilities:					
Accounts payable	$ 29,196	$ 81,173	$ 6,705	$ 148,916	$ 265,990
Due to other governments	—	—	—	54,967	54,967
Revenues received in advance	—	62,110	2,994	1,135	66,239
Deposits	—	—	1,245	304	1,549
Contracts and notes payable	—	7,110	118	9,098	16,326
Interest payable	2,251	—	513	—	2,764
Current portion of long-term obligations	5,014	241,249	1,788	50,705	298,756
Other current liabilities	5,987	88,307	3,272	191,281	288,847
Total current liabilities	42,448	479,949	16,635	456,406	995,438
Noncurrent liabilities:					
Compensated absences payable	162	3,471	8,524	534	12,691
Workers' compensation benefits payable	—	—	283	—	283
Certificates of participation, commercial paper, and other borrowings	—	20,255	—	—	20,255
Capital lease obligations	—	360,020	6	—	360,026
Revenue bonds payable	141,508	47,717	26,226	21,752	237,203
Net other postemployment benefits obligation	1,300	96,293	6,293	13,763	117,649
Other noncurrent liabilities	665	491,609	15,370	8,306	515,950
Total noncurrent liabilities	143,635	1,019,365	56,702	44,355	1,264,057
Total liabilities	**186,083**	**1,499,314**	**73,337**	**500,761**	**2,259,495**
DEFERRED INFLOWS OF RESOURCES	**—**	**1,561**	**—**	**—**	1,561
Total liabilities and deferred inflows of resources	**186,083**	**1,500,875**	**73,337**	**500,761**	**2,261,056**
NET POSITION					
Net investment in capital assets	—	181,825	263,260	70,229	515,314
Restricted:					
Nonexpendable – endowments	—	924,853	—	21,044	945,897
Expendable:					
Endowments and gifts	—	—	—	9,378	9,378
Education	—	906,097	—	18,666	924,763
Statute	281,696	—	—	—	281,696
Other purposes	4,479	—	20,198	1,092	25,769
Total expendable	286,175	906,097	20,198	29,136	1,241,606
Unrestricted	(79)	608,481	51,103	40,218	699,723
Total net position	**286,096**	**2,621,256**	**334,561**	**160,627**	**3,402,540**
Total liabilities, deferred inflows of resources, and net position	**$ 472,179**	**$ 4,122,131**	**$ 407,898**	**$ 661,388**	**$ 5,663,596**

(concluded)

Combining Statement of Activities

Nonmajor Component Units

Year Ended June 30, 2014

(amounts in thousands)

	Financing Authorities	California State University Auxiliary Organizations	District Agricultural Associations	Other Component Units	Total
OPERATING EXPENSES					
Personal services	$ 2,208	$ 365,497	$ 98,073	$ 34,712	$ 500,490
Scholarships and fellowships	—	51,190	—	3,748	54,938
Supplies	—	—	—	10,726	10,726
Services and charges	131,666	997,601	107,518	35,532	1,272,317
Depreciation	229	48,386	22,878	3,043	74,536
Interest expense and fiscal charges	5,031	27,047	1,334	1,483	34,895
Other	31	66,957	2	2,487	69,477
Total operating expenses	**139,165**	**1,556,678**	**229,805**	**91,731**	**2,017,379**
PROGRAM REVENUES					
Charges for services	99,756	681,398	223,091	65,664	1,069,909
Operating grants and contributions	28,275	526,329	—	9,915	564,519
Capital grants and contributions	—	8,166	441	540	9,147
Total program revenues	**128,031**	**1,215,893**	**223,532**	**76,119**	**1,643,575**
Net revenues (expenses)	(11,134)	(340,785)	(6,273)	(15,612)	(373,804)
GENERAL REVENUES					
Investment and interest income	11,336	230,362	73	11,979	253,750
Other	683	415,751	8,313	9,115	433,862
Total general revenues	**12,019**	**646,113**	**8,386**	**21,094**	**687,612**
Change in net position	885	305,328	2,113	5,482	313,808
Net position – beginning	**285,211 ***	**2,315,928 ***	**332,448 ***	**155,145**	3,088,732
Net position – ending	**$ 286,096**	**$ 2,621,256**	**$ 334,561**	**$ 160,627**	**$ 3,402,540**

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Statistical Section

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Financial Trends

Financial trend schedules contain trend information to help the reader understand how the State's financial performance and well-being have changed over time. This section includes the following financial trend schedules.

Schedule of Net Position by Component

Schedule of Changes in Net Position

Schedule of Fund Balances – Governmental Funds

Schedule of Changes in Fund Balances – Governmental Funds

Sources: The information in the following schedules is derived from the State's Comprehensive Annual Financial Reports.

Schedule of Net Position by Component

For the Past Ten Fiscal Years

(accrual basis of accounting, amounts in thousands)

	2005	2006	2007	2008	2009	2010	2011 [2]	2012	2013	2014 [3]
Governmental activities										
Net investment in capital assets	$ 79,579,676	$ 83,489,137	$ 81,352,744	$ 84,255,048	$ 83,285,184	$ 84,085,632	$ 85,460,957	$ 80,768,527	$ 84,931,030	$ 94,001,659
Restricted – Expendable	7,631,057	8,431,279	10,543,602	10,148,648	8,391,814	14,987,867	27,865,821	24,871,510	24,315,913	24,950,740
Unrestricted [1]	(52,631,090)	(54,710,847)	(56,519,478)	(69,346,950)	(86,302,434)	(103,272,097)	(123,783,314)	(123,897,753)	(117,383,903)	(116,948,128)
Total governmental activities net position	**$ 34,579,643**	**$ 37,209,569**	**$ 35,376,868**	**$ 25,056,746**	**$ 5,374,564**	**$ (4,198,598)**	**$ (10,456,536)**	**$ (18,257,716)**	**$ (8,136,960)**	**$ 2,004,271**
Business-type activities										
Net investment in capital assets	$ 836,524	$ 818,405	$ 208,268	$ 49,510	$ (130,634)	$ 89,334	$ 1,382,957	$ 1,561,258	$ 1,718,648	$ 2,065,550
Restricted – Nonexpendable	—	—	—	—	—	—	21,812	21,584	20,627	16,219
Restricted – Expendable	7,235,373	8,722,865	8,574,932	6,853,621	3,855,051	3,404,682	3,615,945	4,571,036	5,151,915	4,897,314
Unrestricted	1,566,246	1,801,304	2,430,492	3,009,297	717,740	(4,250,609)	(4,214,494)	(3,346,849)	(2,824,738)	(1,661,692)
Total business-type activities net position	**$ 9,638,143**	**$ 11,342,574**	**$ 11,213,692**	**$ 9,912,428**	**$ 4,442,157**	**$ (756,593)**	**$ 806,220**	**$ 2,807,029**	**$ 4,066,452**	**$ 5,317,391**
Primary government										
Net investment in capital assets	$ 80,416,200	$ 84,307,542	$ 81,561,012	$ 84,304,558	$ 83,154,550	$ 84,174,966	$ 86,843,914	$ 82,329,785	$ 86,649,678	$ 96,067,209
Restricted – Nonexpendable	—	—	—	—	—	—	21,812	21,584	20,627	16,219
Restricted – Expendable	14,866,430	17,154,144	19,118,534	17,002,269	12,246,865	18,392,549	31,481,766	29,442,546	29,467,828	29,848,054
Unrestricted	(51,064,844)	(52,909,543)	(54,088,986)	(66,337,653)	(85,584,694)	(107,522,706)	(127,997,808)	(127,244,602)	(120,208,641)	(118,609,820)
Total primary government net position	**$ 44,217,786**	**$ 48,552,143**	**$ 46,590,560**	**$ 34,969,174**	**$ 9,816,721**	**$ (4,955,191)**	**$ (9,650,316)**	**$ (15,450,687)**	**$ (4,070,508)**	**$ 7,321,662**

[1] Governmental activities' unrestricted net position reflects a negative balance because of outstanding bonded debt issued to build capital assets for school districts and other local governmental entities.

[2] In fiscal year 2011, the net position of governmental activities and business-type activities changed primarily as a result of the reclassification of the $1.2 billion beginning net position of the California State University Fund from a governmental fund to an enterprise fund.

[3] In fiscal year 2014, the net position of governmental activities and business-type activities changed primarily as a result of the reclassification of the $380 million beginning net position of the Public Buildings Construction Fund from an enterprise fund to an internal service fund.

Schedule of Changes in Net Position

For the Past Ten Fiscal Years

(accrual basis of accounting, amounts in thousands)

	2005	2006	2007	2008	2009	2010	2011 [4]	2012	2013	2014 [5]
Governmental activities										
Expenses										
General government [1]	$ 10,965,932	$ 10,379,122	$ 14,261,590	$ 13,187,080	$ 13,895,948	$ 12,454,969	$ 13,520,557	$ 14,411,737	$ 15,390,100	$ 14,292,179
Education	53,152,986	62,652,997	61,542,105	65,130,420	65,643,486	61,764,385	56,486,944	51,288,647	50,586,387	54,719,677
Health and human services	62,016,344	65,763,380	69,979,980	74,309,784	79,077,015	80,799,454	92,475,364	89,939,730	94,069,749	105,037,102
Resources	4,160,949	4,161,814	5,316,769	6,333,252	5,626,359	6,019,104	5,853,278	5,950,635	5,670,922	5,854,685
State and consumer services	1,038,327	595,602	1,214,740	1,129,063	1,518,402	979,962	1,405,019	1,241,269	1,475,486	589,715
Business and transportation	7,142,209	8,809,236	9,763,200	13,068,043	11,980,315	14,155,767	11,119,644	13,719,927	12,836,192	13,427,229
Correctional programs	6,611,219	7,299,124	8,945,325	10,504,182	10,835,203	10,310,229	10,295,564	10,343,574	10,081,736	11,234,705
Interest on long-term debt	2,408,246	2,893,537	2,596,316	4,184,631	3,801,283	4,146,259	4,377,064	4,365,181	4,349,632	4,699,265
Total expenses	**147,496,212**	**162,554,812**	**173,620,025**	**187,846,455**	**192,378,011**	**190,630,129**	**195,533,434**	**191,260,700**	**194,460,204**	**209,854,557**
Program revenues										
Charges for services:										
General government [1]	4,733,155	4,620,030	4,495,166	4,404,126	4,781,126	4,918,132	5,057,082	6,841,334	6,196,586	5,994,608
Education	2,936,693	3,360,919	2,689,906	3,343,205	3,483,072	4,231,692	110,423	81,212	64,480	67,165
Health and human services	3,280,970	4,554,673	4,751,011	5,191,548	4,256,069	3,769,794	8,471,261	4,940,650	8,761,781	7,961,897
Resources	1,934,532	2,198,886	2,110,593	2,648,952	2,578,738	2,597,712	2,797,264	2,866,232	3,269,315	3,403,524
State and consumer services	601,322	640,088	704,512	692,348	658,486	654,034	660,196	724,222	682,503	586,055
Business and transportation	2,541,072	3,776,098	4,040,268	3,987,958	4,210,461	5,420,261	4,010,433	4,342,668	4,082,616	4,247,258
Correctional programs	12,354	37,203	30,821	27,702	21,592	18,097	14,981	16,757	45,153	13,645
Operating grants/contributions	41,135,441	42,254,065	43,440,102	45,849,413	57,828,622	75,469,783	67,849,215	58,777,006	60,943,536	69,861,130
Capital grants/contributions	1,090,419	1,272,506	1,164,526	1,207,101	1,142,691	962,388	1,272,326	2,193,189	1,669,021	1,515,890
Total program revenues	**58,265,958**	**62,714,468**	**63,426,905**	**67,352,353**	**78,960,857**	**98,041,893**	**90,243,181**	**80,783,270**	**85,714,991**	**93,651,172**
Total governmental activities net program expenses	**(89,230,254)**	**(99,840,344)**	**(110,193,120)**	**(120,494,102)**	**(113,417,154)**	**(92,588,236)**	**(105,290,253)**	**(110,477,430)**	**(108,745,213)**	**(116,203,385)**
General revenues and other changes in net position										
General revenues:										
Personal income taxes	42,504,352	51,251,266	53,272,229	55,355,266	45,709,344	43,866,857	51,719,107	54,368,347	67,502,738	68,793,292
Sales and use taxes	32,488,563	34,162,177	35,427,013	34,856,824	31,244,979	33,784,106	33,521,221	31,216,438	33,839,065	36,477,724
Corporation taxes	11,174,937	10,735,792	11,211,267	11,207,468	10,741,140	9,472,611	9,384,416	8,629,935	7,289,910	9,102,128
Motor vehicle excise taxes [2]	—	—	—	—	—	—	—	5,263,435	5,219,605	5,777,167
Insurance taxes	2,231,060	2,212,916	2,165,567	2,190,870	2,063,555	2,235,251	2,311,880	2,408,473	2,295,579	3,359,043
Other taxes [2]	2,507,729	2,099,075	5,939,890	5,594,970	5,264,685	5,234,531	7,768,010	2,368,748	2,498,248	2,302,231
Investment and interest	289,363	504,655	730,066	639,059	175,584	114,933	62,946	72,237	57,285	80,969
Escheat	525,897	291,549	334,002	282,287	315,642	149,996	229,146	372,215	551,580	487,937
Transfers	27,727	23,259	29,855	54,994	21,015	(13,441,875)	(3,251,598)	(2,031,032)	(1,997,759)	(2,296,010)
Special item [3]	—	1,218,311	—	—	—	—	—	—	—	(54,537)
Total general revenues and other changes in net position	**91,749,628**	**102,499,000**	**109,109,889**	**110,181,738**	**95,535,944**	**81,416,410**	**101,745,128**	**102,668,796**	**117,256,251**	**124,029,944**
Total governmental activities change in net position	**$ 2,519,374**	**$ 2,658,656**	**$ (1,083,231)**	**$ (10,312,364)**	**$ (17,881,210)**	**$ (11,171,826)**	**$ (3,545,125)**	**$ (7,808,634)**	**$ 8,511,038**	**$ 7,826,559**

(continued)

[1] Tax relief program expenses and revenue reported separately prior to fiscal year 2009 are now included with general government.

[2] Motor vehicle excise taxes, reported separately in fiscal year 2012 due to material increases, were included with "Other taxes" in prior years.

[3] In fiscal year 2006, a related organization assumed debt on the State's behalf. In fiscal year 2014, a component unit assumed debt on behalf of the primary government.

[4] In fiscal year 2011, the California State University Fund was reclassified from a governmental fund to an enterprise fund.

[5] In fiscal year 2014, the Public Buildings Construction Fund was reclassified from an enterprise fund to an internal service fund.

Schedule of Changes in Net Position (continued)

For the Past Ten Fiscal Years
(accrual basis of accounting, amounts in thousands)

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Business-type activities										
Expenses										
Electric Power	$ 5,655,000	$ 5,342,000	$ 5,865,000	$ 5,362,000	$ 4,560,000	$ 3,908,000	$ 2,317,000	$ 915,000	$ 488,000	$ 835,000
Water Resources	731,393	949,691	951,590	1,009,214	914,837	1,069,662	1,115,793	1,047,574	1,127,195	983,048
Public Buildings Construction [5]	299,900	334,094	334,777	371,904	420,465	494,332	390,173	403,853	410,404	—
State Lottery	3,493,984	3,911,717	3,470,615	3,173,060	3,069,365	3,166,447	3,507,524	4,431,709	4,499,451	5,078,935
Unemployment Programs	8,939,654	8,584,521	9,136,218	10,622,582	19,609,068	29,614,598	25,619,138	21,111,658	17,599,219	13,673,403
California State University [4]	—	—	—	—	—	—	5,851,355	6,181,397	6,196,541	6,544,936
High Technology Education	33,690	30,871	22,704	16,916	15,590	15,025	9,590	7,778	6,568	847
Toll Facilities	20,861	18,265	—	—	—	—	—	—	—	—
State University Dormitory Building Maintenance and Equipment	449,080	491,914	844,798	699,018	486,349	856,106	—	—	—	—
State Water Pollution Control Revolving	14,638	20,427	12,702	13,056	12,261	16,893	10,953	8,780	3,698	5,072
Housing Loan	142,085	138,988	127,206	132,101	130,777	122,114	104,667	89,570	70,356	57,206
Other enterprise programs	86,612	113,976	141,859	122,921	147,441	130,329	118,006	78,601	58,578	79,641
Total expenses	**19,866,897**	**19,936,464**	**20,907,469**	**21,522,772**	**29,366,153**	**39,393,506**	**39,044,199**	**34,275,920**	**30,460,010**	**27,258,088**
Program revenues										
Charges for services:										
Electric Power	5,655,000	5,342,000	5,865,000	5,362,000	4,560,000	3,908,000	2,317,000	915,000	488,000	835,000
Water Resources	750,282	949,691	951,590	1,009,214	914,837	1,069,662	1,115,793	1,047,574	1,127,195	983,048
Public Buildings Construction [5]	315,718	384,442	396,895	384,816	366,151	430,069	456,467	428,260	616,041	—
State Lottery	3,512,126	3,740,041	3,461,699	3,242,828	3,051,320	3,145,259	3,484,689	4,484,291	4,445,921	5,077,976
Unemployment Programs	10,459,688	10,263,447	9,017,969	8,829,018	14,273,975	11,255,098	24,678,783	21,947,781	18,597,962	15,167,258
California State University [4]	—	—	—	—	—	—	2,505,545	2,915,123	2,891,432	3,014,030
High Technology Education	36,737	26,508	22,966	20,600	15,975	13,015	10,498	8,452	5,585	424
Toll Facilities	66	21	—	—	—	—	—	—	—	—
State University Dormitory Building Maintenance and Equipment	395,396	512,231	554,851	640,208	811,454	599,571	—	—	—	—
State Water Pollution Control Revolving	55,218	64,740	78,564	71,404	59,923	56,121	55,957	57,540	60,173	62,985
Housing Loan	121,063	127,733	130,293	130,139	109,636	85,321	89,224	84,830	66,050	65,247
Other enterprise programs	115,901	129,048	134,018	137,476	124,952	98,957	105,676	74,693	80,540	77,671
Operating grants/contributions	—	—	—	—	—	—	1,216,808	1,249,995	1,323,345	1,491,559
Capital grants/contributions	73,182	56,942	182,989	189,064	71,882	91,808	86,272	106,057	142,304	80,903
Total program revenues	**21,490,377**	**21,596,844**	**20,796,834**	**20,016,767**	**24,360,105**	**20,752,881**	**36,122,712**	**33,319,596**	**29,844,548**	**26,856,101**
Total business-type activities net program revenues (expenses)	**1,623,480**	**1,660,380**	**(110,635)**	**(1,506,005)**	**(5,006,048)**	**(18,640,625)**	**(2,921,487)**	**(956,324)**	**(615,462)**	**(401,987)**
Other changes in net position										
Transfers	(27,727)	(23,259)	(29,855)	(54,994)	(21,015)	13,441,875	3,251,598	2,031,032	1,997,759	2,296,010
Special item [3]	—	—	—	—	—	—	—	—	—	(26,913)
Total business-type activities change in net position	**1,595,753**	**1,637,121**	**(140,490)**	**(1,560,999)**	**(5,027,063)**	**(5,198,750)**	**330,111**	**1,074,708**	**1,382,297**	**1,867,110**
Total primary government change in net position	**$ 4,115,127**	**$ 4,295,777**	**$ (1,223,721)**	**$ (11,873,363)**	**$ (22,908,273)**	**$ (16,370,576)**	**$ (3,215,014)**	**$ (6,733,926)**	**$ 9,893,335**	**$ 9,693,669**

(concluded)

Schedule of Fund Balances – Governmental Funds

For the Past Ten Fiscal Years

(modified accrual basis of accounting, amounts in thousands)

	2005	2006	2007	2008	2009	2010	2011 [1]	2012	2013	2014
General Fund										
Reserved	$ 1,597,085	$ 1,999,953	$ 2,596,537	$ 2,113,149	$ 2,260,504	$ 1,320,782	$ —	$ —	$ —	$ —
Unreserved	(1,410,228)	672,862	(4,504,075)	(6,282,018)	(18,344,400)	(20,929,640)	—	—	—	—
Nonspendable	—	—	—	—	—	—	148,019	7,614	140,107	128,609
Restricted	—	—	—	—	—	—	156,496	80,849	178,643	394,246
Committed	—	—	—	—	—	—	29,850	19,600	22,879	125,120
Unassigned	—	—	—	—	—	—	(20,273,606)	(23,069,351)	(14,596,085)	(8,092,571)
Total General Fund	**$ 186,857**	**$ 2,672,815**	**$ (1,907,538)**	**$ (4,168,869)**	**$ (16,083,896)**	**$ (19,608,858)**	**$ (19,939,241)**	**$ (22,961,288)**	**$ (14,254,456)**	**$ (7,444,596)**
All other governmental funds										
Reserved	$ 14,924,365	$ 16,198,481	$ 21,955,300	$ 19,512,083	$ 27,465,566	$ 41,087,578	$ —	$ —	$ —	$ —
Unreserved, reported in:										
Special revenue funds	(329,018)	(806,558)	(914,843)	(1,817,290)	(3,539,254)	(8,554,611)	—	—	—	—
Capital projects funds	(403,106)	(882,550)	(1,128,608)	(837,349)	686,113	838,879	—	—	—	—
Nonspendable	—	—	—	—	—	—	39,448	—	15,022	27,260
Restricted	—	—	—	—	—	—	27,709,325	24,790,661	24,137,270	24,269,093
Committed	—	—	—	—	—	—	2,701,702	2,109,089	2,318,035	2,914,747
Assigned	—	—	—	—	—	—	268,888	3	209,171	18,857
Unassigned	—	—	—	—	—	—	(21,847)	(103,177)	(176,066)	(20,145)
Total all other governmental funds	**$ 14,192,241**	**$ 14,509,373**	**$ 19,911,849**	**$ 16,857,444**	**$ 24,612,425**	**$ 33,371,846**	**$ 30,697,516**	**$ 26,796,576**	**$ 26,503,432**	**$ 27,209,812**

Note: In fiscal year 2011, the State implemented GASB Statement No. 54, which significantly changed the fund balance classifications. Fiscal year 2011 and subsequent fund balance classifications are not comparable to prior years' classifications.

[1] In fiscal year 2011, the California State University Fund, which consisted of $1.2 billion beginning fund balance, was reclassified from a governmental fund to an enterprise fund.

Schedule of Changes in Fund Balances – Governmental Funds

For the Past Ten Fiscal Years

(modified accrual basis of accounting, amounts in thousands)

	2005	2006	2007	2008	2009	2010	2011 [4]	2012	2013	2014
Revenues										
Personal income taxes	$ 42,595,352	$ 50,798,418	$ 53,289,524	$ 55,197,062	$ 45,482,726	$ 43,884,798	$ 51,691,153	$ 54,442,733	$ 67,424,576	$ 68,771,667
Sales and use taxes	32,201,242	34,300,402	35,451,311	34,764,651	31,425,308	33,696,412	33,488,805	31,205,183	33,869,961	36,409,311
Corporation taxes	11,191,937	10,709,792	11,210,267	11,201,468	10,738,140	9,467,611	9,433,416	8,609,935	7,261,910	9,242,454
Motor vehicle excise taxes [1]	—	—	—	—	—	—	—	5,263,435	5,219,605	5,777,167
Insurance taxes	2,231,060	2,212,916	2,165,567	2,190,870	2,063,555	2,235,251	2,311,881	2,408,473	2,295,579	3,359,043
Other taxes [1]	2,482,335	2,367,670	5,800,027	5,675,894	5,245,416	5,235,801	7,829,662	2,306,717	2,425,184	2,297,025
Intergovernmental	42,933,381	45,466,185	46,442,519	48,969,006	61,053,091	79,183,291	69,160,916	62,235,671	64,418,808	73,000,600
Licenses and permits	4,954,025	5,125,223	5,266,142	5,326,854	5,805,369	6,900,747	6,767,437	6,600,001	6,659,078	6,957,117
Charges for services	949,147	1,002,410	911,387	1,025,569	986,773	974,181	1,008,647	728,980	741,201	769,302
Fees and penalties	5,388,332	6,008,306	6,093,948	6,800,633	6,204,288	7,291,894	10,262,387	8,315,452	10,673,104	9,757,476
Investment and interest	576,097	1,058,119	1,555,202	1,591,025	1,108,058	281,881	212,116	175,898	135,928	137,754
Escheat	525,897	291,549	334,002	282,287	315,642	149,996	229,146	372,215	551,580	488,945
Other	3,755,426	4,518,621	3,732,591	4,265,010	3,933,035	3,555,282	2,941,484	2,542,505	3,227,347	2,903,335
Total revenues	**149,784,231**	**163,859,611**	**172,252,487**	**177,290,329**	**174,361,401**	**192,857,145**	**195,337,050**	**185,207,198**	**204,903,861**	**219,871,196**
Expenditures										
General government [2]	10,647,740	9,394,308	14,062,920	12,745,860	13,075,901	12,036,503	12,997,651	13,484,305	15,748,069	14,778,214
Education	52,242,779	59,768,677	61,103,008	64,367,612	63,857,066	59,229,726	55,547,139	50,362,337	49,692,763	53,309,436
Health and human services	62,015,628	65,968,433	70,157,806	74,102,708	78,731,136	80,321,470	91,941,309	89,473,391	94,621,630	104,781,494
Resources	4,077,102	4,296,715	5,191,078	6,123,609	5,209,684	5,456,904	5,254,757	5,358,575	5,318,332	5,508,860
State and consumer services	973,466	1,111,128	1,214,752	1,239,397	1,266,068	1,088,494	1,183,536	1,219,499	1,259,392	621,037
Business and transportation	8,556,618	10,370,589	11,485,069	14,747,506	13,803,518	14,083,790	13,181,390	15,684,611	15,008,671	15,721,532
Correctional programs	6,658,614	7,552,790	9,030,299	9,972,507	9,883,593	9,553,992	9,253,791	9,805,846	9,681,086	10,395,234
Capital outlay	1,534,150	2,128,050	1,345,021	1,724,074	1,432,376	1,691,674	1,128,011	1,296,413	1,222,342	1,909,010
Debt service:										
Bond and commercial paper retirement	3,672,119	6,375,607	5,691,791	8,970,533	5,131,600	3,259,203	3,118,906	4,435,992	5,189,150	7,002,941
Interest and fiscal charges	2,243,764	3,135,763	2,881,849	3,394,433	3,584,358	4,022,922	4,355,110	4,453,643	4,363,260	4,321,040
Total expenditures	**152,621,980**	**170,102,060**	**182,163,593**	**197,388,239**	**195,975,300**	**190,744,678**	**197,961,600**	**195,574,612**	**202,104,695**	**218,348,798**
Excess (deficiency) of revenues over (under) expenditures	(2,837,749)	(6,242,449)	(9,911,106)	(20,097,910)	(21,613,899)	2,112,467	(2,624,550)	(10,367,414)	2,799,166	1,522,398
Other financing sources (uses)										
General obligation bonds and commercial paper issued	5,058,339	7,750,500	9,040,500	14,193,760	16,764,085	12,039,472	4,525,000	4,165,515	4,038,095	5,082,305
Revenue bonds issued	99,250	—	—	—	97,635	—	—	—	—	—
Refunding/remarketing debt issued	1,937,430	5,086,944	9,098,376	1,798,685	—	4,176,050	—	4,300,555	4,634,365	2,077,330
Payment to refund/remarket long-term debt	(1,937,430)	(4,561,944)	(7,840,621)	(1,844,006)	—	(4,221,604)	—	(4,508,834)	(3,174,613)	(328,024)
Premium on bonds issued [3]	—	—	—	295,439	126,107	267,980	32,607	667,931	964,211	505,026
Proceeds from loans	—	—	—	—	—	1,996,737	35,538	—	—	—
Capital leases [4]	414,738	748,037	178,936	268,686	364,813	811,816	204,631	528,804	710,440	1,486,204
Transfers in	4,580,201	5,137,895	9,311,462	11,414,132	6,776,476	6,548,447	8,705,229	5,523,644	2,957,762	4,041,250
Transfers out	(4,546,792)	(5,113,107)	(9,242,771)	(11,336,764)	(6,689,658)	(19,952,766)	(11,902,800)	(7,499,131)	(4,898,754)	(6,304,047)
Total other financing sources	**5,605,736**	**9,048,325**	**10,545,882**	**14,789,932**	**17,439,458**	**1,666,132**	**1,600,205**	**3,178,484**	**5,231,506**	**6,560,044**
Total change in fund balance	**$ 2,767,987**	**$ 2,805,876**	**$ 634,776**	**$ (5,307,978)**	**$ (4,174,441)**	**$ 3,778,599**	**$ (1,024,345)**	**$ (7,188,930)**	**$ 8,030,672**	**$ 8,082,442**
Debt service as a percentage of noncapital expenditures	3.9%	5.7%	4.7%	6.3%	4.5%	3.9%	3.8%	4.6%	4.8%	5.2%

[1] Motor vehicle excise taxes, reported separately in fiscal year 2012 due to material increases, were included with "Other taxes" in prior years.

[2] Tax relief program expenditures reported separately prior to fiscal year 2009 are now included with general government.

[3] Prior to fiscal year 2008, premiums on bonds issued were netted against debt service interest and fiscal charges.

[4] In fiscal year 2011, the California State University Fund was reclassified from a governmental fund to an enterprise fund.

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Revenue Capacity

Revenue capacity schedules contain information to help the reader assess the State's capacity to raise revenue and the sources of that revenue. This section includes the following revenue capacity schedules.

Schedule of Revenue Base

Schedule of Revenue Payers by Industry/Income Level

Schedule of Personal Income Tax Rates

Schedule of Revenue Base

For the Past Ten Calendar Years
(amounts in thousands)

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Personal Income by Industry										
(all items restated as footnoted) [1]										
Farm earnings	$ 12,322,433	$ 12,293,563	$ 10,502,902	$ 12,863,060	$ 11,085,038	$ 12,113,947	$ 12,557,572	$ 15,887,490	$ 15,724,952	$ 17,155,685
Forestry, fishing, and other natural resources	5,294,017	5,297,340	6,066,166	6,233,699	6,187,051	6,127,860	6,688,211	6,900,901	7,730,465	8,180,241
Mining	3,043,981	3,424,432	4,165,677	4,176,102	6,137,953	4,001,858	5,050,332	6,134,672	6,767,992	6,892,409
Construction and utilities	78,401,346	83,625,469	88,987,518	84,582,353	76,445,719	63,216,733	58,750,008	60,811,474	66,192,913	71,798,914
Manufacturing	113,519,462	117,178,686	122,230,122	124,761,057	122,428,281	113,614,593	116,160,042	120,509,059	125,372,884	126,542,447
Wholesale trade	47,430,783	50,654,666	54,567,859	58,438,881	57,837,584	52,413,990	53,651,640	57,504,570	60,346,943	63,119,835
Retail trade	70,716,361	73,229,969	75,214,254	75,601,717	69,458,834	66,365,074	67,715,988	70,779,805	74,387,050	76,817,610
Transportation and warehousing	29,476,808	30,156,650	31,592,849	32,801,341	32,256,160	30,368,585	31,087,284	33,824,988	35,186,355	36,740,615
Information, finance, and insurance	118,186,279	123,795,537	128,340,864	131,366,347	126,010,535	121,932,283	125,369,696	129,712,308	142,161,282	154,146,768
Real estate	30,195,066	29,891,241	27,965,840	21,311,535	21,821,327	19,921,652	20,855,431	25,097,591	40,013,799	42,849,117
Services	345,247,755	361,118,487	389,562,325	409,727,938	429,018,004	412,103,397	423,008,875	450,544,104	483,052,428	501,619,418
Federal, civilian	19,817,459	20,752,518	20,978,437	21,578,358	22,347,584	23,426,267	25,978,417	26,293,383	26,450,620	26,072,762
Military	11,934,474	12,363,039	12,812,404	13,447,304	14,560,197	15,558,704	16,264,215	16,059,376	15,911,335	15,348,981
State and local government	149,072,533	155,244,124	164,416,341	176,638,739	185,038,204	184,143,378	185,261,156	189,532,850	188,383,565	191,327,085
Other [2]	287,156,727	316,966,493	361,905,283	390,760,904	415,597,502	411,786,355	430,154,572	476,042,917	517,511,186	518,002,299
Total personal income	**$ 1,321,815,484**	**$ 1,395,992,214**	**$ 1,499,308,841**	**$ 1,564,289,335**	**$ 1,596,229,973**	**$ 1,537,094,676**	**$ 1,578,553,439**	**$ 1,685,635,488**	**$ 1,805,193,769**	**$ 1,856,614,186**
Average effective rate [3]	4.5%	4.6%	5.1%	5.0%	5.7%	5.2%	4.7%	5.3%	5.0%	6.1%

(continued)

Source: Bureau of Economic Analysis, U.S. Department of Commerce

[1] 2004-2012 information updated.

[2] Other personal income includes dividends, interest, rental income, residence adjustment, government transfers for individuals, and deductions for social insurance.

[3] The total direct rate for personal income is not available. The average effective rate equals personal income tax revenue divided by adjusted gross income.

Schedule of Revenue Base (continued)

For the Past Ten Calendar Years

(amounts in thousands)

	2004	2005	2006	2007	2008	2009 [1]	2010	2011	2012	2013
Taxable Sales by Industry [1]										
Retail										
Apparel	$ 16,957,137	$ 18,712,125	$ 19,829,416	$ 20,855,890	$ 22,120,094					
General merchandise	53,939,532	56,787,153	59,264,894	59,897,350	56,425,472					
Specialty	48,961,996	52,376,758	54,695,680	34,122,471	27,380,740					
Food	19,825,771	21,128,469	21,864,179	22,461,059	21,504,308					
Restaurant and bars	43,275,038	46,412,847	49,229,418	51,658,575	52,051,404					
Household	16,405,347	17,388,704	17,383,449	16,720,852	17,199,187					
Building materials	34,154,543	36,152,218	36,163,326	32,656,324	26,647,007					
Automotive	103,528,856	112,167,922	115,154,535	117,864,918	106,555,420					
Other	13,124,468	14,681,929	15,481,675	30,787,663	27,434,795					
Business and personal service	22,306,787	23,090,910	23,650,322	23,355,672	22,045,958					
All other	127,597,308	138,005,393	146,935,543	150,669,375	152,289,155					
Total taxable sales	**$ 500,076,783**	**$ 536,904,428**	**$ 559,652,437**	**$ 561,050,149**	**$ 531,653,540**					
Direct sales tax rate [2]	5.25%	5.25%	5.25%	5.25%	5.25%					
Taxable Sales by Industry (Using NAICS Codes) [1]										
Retail and Food Services										
Motor vehicle and parts dealers						$ 44,488,198	$ 47,355,568	$ 53,303,501	$ 61,547,848	$ 67,986,436
Furniture and home furnishings stores						8,481,020	8,742,984	9,280,688	9,937,187	10,645,523
Electronics and appliance stores						13,384,338	13,749,019	14,297,402	14,744,723	14,765,485
Building materials, garden equipment and supplies						23,978,313	24,750,865	26,064,428	27,438,083	29,680,053
Food and beverage						22,546,285	22,787,407	23,606,132	24,511,714	25,289,203
Health and personal care stores						9,244,958	9,525,910	10,309,491	10,787,801	11,294,049
Gasoline stations						39,077,835	45,226,491	55,210,076	58,006,168	56,860,585
Clothing and clothing accessories stores						25,641,272	27,267,430	29,600,057	32,357,516	34,918,036
Sporting goods, hobby, book and music stores						10,294,172	10,365,480	10,602,711	10,751,814	11,113,831
General merchandise stores						44,921,639	46,323,804	48,219,018	49,996,451	51,431,094
Miscellaneous store retailers						16,385,169	16,569,690	17,187,402	17,880,765	18,382,224
Nonstore retailers						2,849,864	2,830,615	3,081,188	4,375,432	7,296,839
Food services and drinking places						49,921,543	51,282,453	54,755,944	59,037,320	62,776,360
All other outlets						145,278,339	150,570,269	165,050,017	177,014,427	184,399,899
Total taxable sales						**$ 456,492,945**	**$ 477,347,985**	**$ 520,568,055**	**$ 558,387,249**	**$ 586,839,617**
Direct sales tax rate [2]						6.25% [3]	6.25%	6.25%	6.25%	6.50% [4]

(concluded)

Source: California State Board of Equalization (BOE)

[1] Due to the BOE's conversion from business coding to North American Industry Classification System (NAICS) coding for the reporting of Taxable Sales by Industry, industry level data for 2009 and forward is not comparable to that reported for prior years. The NAICS conversion process for over one million permit holders was not completed until the end of 2008, so 2009 was the first year the BOE used the new format with NAICS codes.

[2] The direct sales tax rate used is the state tax rate that provides revenue to the State's General Fund and debt service fund. It does not include the 1% local tax rate that is allocated to cities and counties.

[3] Rate change was effective on April 1, 2009.

[4] Rate change was effective on January 1, 2013.

Schedule of Revenue Payers by Industry/Income Level

For Calendar Years 2004 and 2012

Personal Income Tax Filers and Liability by Income Level [1]

	2004 Number of Filers	2004 Percent of Total	2004 Tax Liability [2]	2004 Percent of Total
Under $ 5,000	1,046,035	7.6 %	$ 6,556	0.0 %
5,000 to 9,999	1,127,452	8.2	8,732	0.0
10,000 to 14,999	1,182,376	8.5	23,624	0.1
15,000 to 19,999	1,155,257	8.4	56,241	0.2
20,000 to 24,999	1,000,292	7.2	117,178	0.3
25,000 to 29,999	946,276	6.8	194,776	0.5
30,000 to 39,999	1,478,641	10.7	571,029	1.6
40,000 to 49,999	1,192,237	8.6	861,190	2.4
50,000 to 99,999	2,960,452	21.4	5,502,410	15.2
$ 100,000 and over	1,743,792	12.6	28,751,605	79.7
Total	**13,832,810**	**100.0 %**	**$ 36,093,341**	**100.0 %**

	2012 Number of Filers	2012 Percent of Total	2012 Tax Liability [2]	2012 Percent of Total
Under $ 5,000	1,099,380	7.2 %	$ 17,845	0.0 %
5,000 to 9,999	1,168,312	7.7	10,997	0.0
10,000 to 14,999	1,258,123	8.3	15,843	0.0
15,000 to 19,999	1,211,517	8.0	37,876	0.1
20,000 to 24,999	1,073,926	7.1	77,303	0.1
25,000 to 29,999	947,288	6.2	134,924	0.2
30,000 to 39,999	1,529,957	10.1	440,170	0.7
40,000 to 49,999	1,143,878	7.5	636,952	1.1
50,000 to 99,999	3,188,832	21.0	5,488,062	9.2
$ 100,000 and over	2,578,523	16.9	53,055,134	88.6
Total	**15,199,736**	**100.0 %**	**$ 59,915,106**	**100.0 %**

Source: California Franchise Tax Board

[1] For California resident tax returns. Calendar year 2012 is the most recent year for which data are available.
[2] Amounts are in thousands.

For Calendar Years 2004 and 2013

Sales Tax Permits and Tax Liability by Industry

	2004 (Using Business Codes) [1] Number of Permits [2]	Percent of Total	Tax Liability [3]	Percent of Total
Retail:				
Apparel	39,018	3.7 %	$ 890,250	3.4 %
General merchandise	15,543	1.5	2,831,825	10.8
Specialty	205,644	19.6	2,570,505	9.8
Food	24,885	2.4	1,040,853	4.0
Restaurant and bars	83,761	8.0	2,271,939	8.7
Household	32,371	3.1	861,281	3.3
Building materials	10,766	1.1	1,793,114	6.8
Automotive	35,828	3.4	5,435,265	20.7
Other	22,441	2.1	689,035	2.6
Business and personal service	103,873	9.9	1,171,106	4.4
All other	474,283	45.2	6,698,859	25.5
Total	**1,048,413**	**100.0 %**	**$ 26,254,032**	**100.0 %**

	2013 (Using NAICS Codes) [1] Number of Permits [2]	Percent of Total	Tax Liability [3]	Percent of Total
Retail and Food Services:				
Motor vehicle and parts dealers	32,324	3.3 %	$ 4,419,118	11.6 %
Furniture and home furnishings stores	17,102	1.7	691,959	1.8
Electronics and appliance stores	21,062	2.1	959,757	2.5
Building materials, garden equipment & supplies	16,323	1.7	1,929,203	5.1
Food and beverage	31,132	3.3	1,643,798	4.3
Health and personal care stores	22,589	2.3	734,113	1.9
Gasoline stations	9,798	1.1	3,695,938	9.7
Clothing and clothing accessories stores	62,164	6.3	2,269,672	6.0
Sporting goods, hobby, book & music stores	26,732	2.7	722,399	1.9
General merchandise stores	15,031	1.5	3,343,023	8.8
Miscellaneous store retailers	112,346	11.4	1,194,845	3.1
Nonstore retailers	202,082	20.6	474,295	1.2
Food services and drinking places	96,594	9.8	4,080,463	10.7
All other outlets	316,477	32.2	11,985,993	31.4
Total	**981,756**	**100.0 %**	**$ 38,144,576**	**100.0 %**

Source: California State Board of Equalization (BOE)

[1] Due to the BOE's conversion from business coding to North American Industry Classification System (NAICS) coding for the reporting of Taxable Sales by Industry, industry level data for 2009 and forward is not comparable to that reported for prior years. The NAICS conversion process for over one million permit holders was not completed until the end of 2008, so 2009 was the first year the BOE used the new format with NAICS codes.
[2] As of July 1.
[3] Calculated by multiplying the taxable sales by industry shown on pages 234 and 235 by the direct sales tax rate. Amounts are in thousands.

Schedule of Personal Income Tax Rates

For Calendar Years 2004-2013

Married Filing Jointly and Surviving Spouse

	2004	2005 [1]	2006	2007	2008	2009	2010	2011	2012	2013
Tax Rate [2]	Income Level	Income Level	Income Level	Income Level	Income Level	Income Level	Income Level	Income Level	Income Level	Income Level
1.0	Up to $12,294	Up to $12,638	Up to $13,244	Up to $13,654	Up to $14,336	Up to $14,120	Up to $14,248	Up to $14,632	Up to $14,910	Up to $15,164
2.0	12,294 – 29,142	12,638 – 29,958	13,244 – 31,963	13,654 – 32,370	14,336 – 33,988	14,120 – 33,478	14,248 – 33,780	14,632 – 34,692	14,910 – 35,352	15,164 – 35,952
4.0	29,142 – 45,994	29,958 – 47,282	31,963 – 49,552	32,370 – 51,088	33,988 – 53,642	33,478 – 52,838	33,780 – 53,314	34,692 – 54,754	35,352 – 55,794	35,952 – 56,742
6.0	45,994 – 63,850	47,282 – 65,638	49,552 – 68,788	51,088 – 70,920	53,642 – 74,466	52,838 – 73,350	53,314 – 74,010	54,754 – 76,008	55,794 – 77,452	56,742 – 78,768
8.0	63,850 – 80,692	65,638 – 82,952	68,788 – 86,934	70,920 – 89,628	74,466 – 94,110	73,350 – 92,698	74,010 – 93,532	76,008 – 96,058	77,452 – 97,884	78,768 – 99,548
9.3	$80,692 and over	82,952 – 999,999	86,934 – 999,999	89,628 – 999,999	94,110 – 999,999	92,698 – 999,999	93,532 – 999,999	96,058 – 999,999	97,884 – 500,000	99,548 – 508,500
10.3	—	$1 million and over	$1 million and over	$1 million and over	$1 million and over	$1 million and over	$1 million and over	$1 million and over	500,000 – 600,000	508,500 – 610,200
11.3	—	—	—	—	—	—	—	—	600,000 – 999,999	610,200 – 999,999
12.3	—	—	—	—	—	—	—	—	$1 million and over	1,000,000 – 1,017,000
13.3	—	—	—	—	—	—	—	—	—	$1,017,000 and over

Single and Married Filing Separately

	2004	2005 [1]	2006	2007	2008	2009	2010	2011	2012	2013
Tax Rate [2]	Income Level	Income Level	Income Level	Income Level	Income Level	Income Level	Income Level	Income Level	Income Level	Income Level
1.0	Up to $6,147	Up to $6,319	Up to $6,622	Up to $6,827	Up to $7,168	Up to $7,060	Up to $7,124	Up to $7,316	Up to $7,455	Up to $7,582
2.0	6,147 – 14,571	6,319 – 14,979	6,622 – 15,698	6,827 – 16,185	7,168 – 16,994	7,060 – 16,739	7,124 – 16,890	7,316 – 17,346	7,455 – 17,676	7,582 – 17,976
4.0	14,571 – 22,997	14,979 – 23,641	15,698 – 24,776	16,185 – 25,544	16,994 – 26,821	16,739 – 26,419	16,890 – 26,657	17,346 – 27,377	17,676 – 27,897	17,976 – 28,371
6.0	22,997 – 31,925	23,641 – 32,819	24,776 – 34,394	25,544 – 35,460	26,821 – 37,233	26,419 – 36,675	26,657 – 37,005	27,377 – 38,004	27,897 – 38,726	28,371 – 39,384
8.0	31,925 – 40,346	32,819 – 41,476	34,394 – 43,467	35,460 – 44,814	37,233 – 47,055	36,675 – 46,349	37,005 – 46,766	38,004 – 48,029	38,726 – 48,942	39,384 – 49,774
9.3	$40,346 and over	41,476 – 999,999	43,467 – 999,999	44,814 – 999,999	47,055 – 999,999	46,349 – 999,999	46,766 – 999,999	48,029 – 999,999	48,942 – 250,000	49,774 – 254,250
10.3	—	$1 million and over	$1 million and over	$1 million and over	$1 million and over	$1 million and over	$1 million and over	$1 million and over	250,000 – 300,000	254,250 – 305,100
11.3	—	—	—	—	—	—	—	—	300,000 – 500,000	305,100 – 508,500
12.3	—	—	—	—	—	—	—	—	$500,000 and over	508,500 – 999,999
13.3	—	—	—	—	—	—	—	—	—	$1 million and over

Head of Household

	2004	2005 [1]	2006	2007	2008	2009	2010	2011	2012	2013
Tax Rate [2]	Income Level	Income Level	Income Level	Income Level	Income Level	Income Level	Income Level	Income Level	Income Level	Income Level
1.0	Up to $12,300	Up to $12,644	Up to $13,251	Up to $13,662	Up to $14,345	Up to $14,130	Up to $14,257	Up to $14,642	Up to $14,920	Up to $15,174
2.0	12,300 – 29,143	12,644 – 29,959	13,251 – 31,397	13,662 – 32,370	14,345 – 33,989	14,130 – 33,479	14,257 – 33,780	14,642 – 34,692	14,920 – 35,351	15,174 – 35,952
4.0	29,143 – 37,567	29,959 – 38,619	31,397 – 40,473	32,370 – 41,728	33,989 – 43,814	33,479 – 43,157	33,780 – 43,545	34,692 – 44,721	35,351 – 45,571	35,952 – 46,346
6.0	37,567 – 46,494	38,619 – 47,796	40,473 – 50,090	41,728 – 51,643	43,814 – 54,225	43,157 – 53,412	43,545 – 53,893	44,721 – 55,348	45,571 – 56,400	46,346 – 57,359
8.0	46,494 – 54,918	47,796 – 56,456	50,090 – 59,166	51,643 – 61,000	54,225 – 64,050	53,412 – 63,089	53,893 – 63,657	55,348 – 65,376	56,400 – 66,618	57,359 – 67,751
9.3	$54,918 and over	56,456 – 999,999	59,166 – 999,999	61,000 – 999,999	64,050 – 999,999	63,089 – 999,999	63,657 – 999,999	65,376 – 999,999	66,618 – 340,000	67,751 – 345,780
10.3	—	$1 million and over	$1 million and over	$1 million and over	$1 million and over	$1 million and over	$1 million and over	$1 million and over	340,00 – 408,000	345,780 – 414,936
11.3	—	—	—	—	—	—	—	—	408,000 – 680,000	414,936 – 691,560
12.3	—	—	—	—	—	—	—	—	$680,000 and over	691,560 – 999,999
13.3	—	—	—	—	—	—	—	—	—	$1 million and over

Source: California Franchise Tax Board (FTB)

[1] Beginning in 2005, there is an additional tax of 1% on taxable income over $1 million for the expansion of mental health services.

[2] FTB tax brackets are indexed to the California Consumer Price Index and are adjusted accordingly on a yearly basis.

Average Effective Rate

(amounts in thousands)

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Personal income tax revenue [1]	$ 37,722,839	$ 42,595,352	$ 50,798,418	$ 53,289,524	$ 55,197,062	$ 45,482,726	$ 43,884,798	$ 51,691,153	$ 54,442,733	$ 66,220,132
Adjusted gross income [2]	$ 841,229,496	$ 932,142,017	$ 990,695,484	$ 1,059,967,500	$ 972,420,100	$ 881,160,200	$ 939,888,500	$ 980,167,100	$ 1,087,823,400	$ 1,091,080,300
Average effective rate [3]	4.5%	4.6%	5.1%	5.0%	5.7%	5.2%	4.7%	5.3%	5.0%	6.1%

[1] Personal income tax revenue is reported on a fiscal year basis.

[2] Source: California Franchise Tax Board. Fiscal year 2013 information reflects returns processed as of December 2014.

[3] The average effective rate equals personal income tax revenue divided by adjusted gross income.

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Debt Capacity

Debt capacity schedules contain information to help the reader understand the State's outstanding debt, the capacity to repay that debt, and the ability to issue additional debt in the future. This section includes the following debt capacity schedules.

Schedule of Ratios of Outstanding Debt by Type

Schedule of Ratios of General Bonded Debt Outstanding

Schedule of General Obligation Bonds Outstanding

Schedule of Pledged Revenue Coverage

Sources: Unless otherwise noted, the information in the following schedules is derived from the State's Comprehensive Annual Financial Reports.

Schedule of Ratios of Outstanding Debt by Type

For the Past Ten Fiscal Years

(amounts in thousands, except per capita)

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Governmental activities										
General obligation bonds [1]	$ 45,541,417	$ 47,003,817	$ 50,269,442	$ 56,424,532	$ 68,653,507	$ 77,745,789	$ 79,469,085	$ 81,060,111	$ 82,346,211	$ 83,276,347
Revenue bonds [2]	8,068,980	7,300,638	8,009,784	7,811,832	7,767,855	7,611,939	7,511,092	7,421,198	7,735,053	18,917,443
Certificates of participation and commercial paper	752,013	923,890	1,358,051	1,736,089	1,407,908	1,342,119	1,335,340	46,098	538,593	598,094
Capital lease obligations [3]	3,918,560	4,466,828	4,346,179	4,376,410	4,456,039	4,967,290	4,882,233	5,176,341	5,319,487	260,088
Total governmental activities	**58,280,970**	**59,695,173**	**63,983,456**	**70,348,863**	**82,285,309**	**91,667,137**	**93,197,750**	**93,703,748**	**95,939,344**	**103,051,972**
Business-type activities										
General obligation bonds [1]	2,090,105	1,963,305	1,954,220	1,907,243	1,702,377	1,477,663	1,218,639	1,118,634	887,053	674,192
Revenue bonds [2]	22,943,536	22,812,509	22,934,094	23,003,097	23,053,114	24,538,094	23,290,315	24,790,918	25,558,129	12,989,916
Certificates of participation and commercial paper	51,093	231,121	179,782	67,204	51,307	64,518	139,974	67,325	77,560	204,647
Capital lease obligations	—	—	—	—	—	—	791,489	817,687	909,871	1,250,274
Total business-type activities	**25,084,734**	**25,006,935**	**25,068,096**	**24,977,544**	**24,806,798**	**26,080,275**	**25,440,417**	**26,794,564**	**27,432,613**	**15,119,029**
Total primary government	**$ 83,365,704**	**$ 84,702,108**	**$ 89,051,552**	**$ 95,326,407**	**$ 107,092,107**	**$ 117,747,412**	**$ 118,638,167**	**$ 120,498,312**	**$ 123,371,957**	**$ 118,171,001**
Debt as a percentage of personal income [4]	6.4%	6.1%	6.0%	6.1%	6.7%	7.8%	7.6%	7.3%	7.0%	6.4%
Amount of debt per capita [5]	$ 2,332	$ 2,354	$ 2,457	$ 2,608	$ 2,906	$ 3,176	$ 3,180	$ 3,207	$ 3,258	$ 3,096

Note: Details regarding the State's outstanding debt can be found in Notes 10 through 16 of the financial statements.

[1] Prior to fiscal year 2008, net unamortized bond premiums and refunding gains/losses were not included. Beginning in fiscal year 2013, refunding gains/losses are no longer included in bonds payable, but are shown as deferred inflows and deferred outflows of resources.

[2] Prior to fiscal year 2014, the Public Buildings Construction Fund was included in business-type activities.

[3] Prior to fiscal year 2014, governmental activities reported a capital lease obligtion to the Public Buildings Construction Fund. In fiscal year 2014, the fund was reclassified from an enterprise fund to an internal service fund and the governmental activities' obligation and the fund's net investment in direct financing leases were netted against each other within governmental activities.

[4] Ratio calculated using personal income data shown on pages 252 and 253 for the prior calendar year.

[5] Amount calculated using population data shown on pages 252 and 253 for the prior calendar year.

Schedule of Ratios of General Bonded Debt Outstanding

For the Past Ten Fiscal Years
(amounts in thousands, except per capita)

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Net general bonded debt										
General obligation bonds [1]	$ 36,735,442	$ 39,034,092	$ 43,234,702	$ 47,828,805	$ 61,724,439	$ 71,284,447	$ 73,516,674	$ 75,791,795	$ 78,001,049	$ 79,368,794
Economic Recovery bonds	10,896,080	9,933,030	8,988,960	10,502,970	8,631,445	7,939,005	7,171,050	6,386,950	5,232,215	4,581,745
Less: restricted debt service fund	—	212,883	792,841	552,326	894	113,172	143,777	330,297	278,425	318,171
Net Economic Recovery bonds	**10,896,080**	**9,720,147**	**8,196,119**	**9,950,644**	**8,630,551**	**7,825,833**	**7,027,273**	**6,056,653**	**4,953,790**	**4,263,574**
Net general bonded debt	**$ 47,631,522**	**$ 48,754,239**	**$ 51,430,821**	**$ 57,779,449**	**$ 70,354,990**	**$ 79,110,280**	**$ 80,543,947**	**$ 81,848,448**	**$ 82,954,839**	**$ 83,632,368**
Net general bonded debt as a percentage of personal income [2]	3.6%	3.5%	3.4%	3.7%	4.4%	5.2%	5.1%	5.0%	4.7%	4.5%
Amount of net general bonded debt per capita [3]	$ 1,332	$ 1,355	$ 1,419	$ 1,581	$ 1,909	$ 2,134	$ 2,159	$ 2,179	$ 2,190	$ 2,191

Note: Details regarding the State's general bonded debt outstanding can be found in Note 15 of the financial statements.

[1] Prior to fiscal year 2008, net unamortized bond premiums and refunding gains/losses were not included. Beginning in fiscal year 2013, refunding gains/losses are no longer included in bonds payable, but are shown as deferred inflows and deferred outflows of resources.
[2] Ratio calculated using personal income data shown on pages 252 and 253 for the prior calendar year.
[3] Amount calculated using population data shown on pages 252 and 253 for the prior calendar year.

Schedule of General Obligation Bonds Outstanding

June 30, 2014
(amounts in thousands)

Governmental activity	
California Clean Water, Clean Air, Safe Neighborhood Parks and Coastal Protection	$ 2,181,915
California Library Construction and Renovation	292,045
California Park and Recreational Facilities	13,525
California Parklands	2,960
California Safe Drinking Water	59,340
California Stem Cell Research and Cures	1,453,770
California Wildlife, Coastal, and Park Land Conservation	124,555
Children's Hospital	1,201,280
Class Size Reduction Public Education Facilities	6,003,820
Clean Air and Transportation Improvement	838,975
Clean Water	11,255
Clean Water and Water Conservation	4,820
Clean Water and Water Reclamation	21,970
Community Parklands	3,135
County Correctional Facility Capital Expenditure	17,535
County Correctional Facility Capital Expenditure and Youth Facility	79,935
Disaster Preparedness and Flood Prevention	2,231,645
Earthquake Safety and Public Building Rehabilitation	87,190
Economic Recovery	4,581,745
Fish and Wildlife Habitat Enhancement	5,395
Higher Education Facilities	424,595
Highway Safety, Traffic Reduction, Air Quality, and Port Security	13,248,140
Housing Emergency Shelter	2,518,785
Housing and Homeless	1,755
Kindergarten-University Public Education Facilities	31,350,575
Lake Tahoe Acquisitions	300
New Prison Construction	42,890
Passenger Rail and Clean Air	58,800
Public Education Facilities	1,504,030
Safe, Clean, Reliable Water Supply	578,960
Safe Drinking Water, Clean Water, Watershed Protection, and Flood Protection	1,444,740
Safe Drinking Water, Water Quality and Supply, Flood Control, River and Coastal Protection	2,394,965
Safe Neighborhood Parks	1,551,415
Safe, Reliable High-Speed Passenger Train	623,705
School Building and Earthquake	15,970
School Facilities	1,195,840
Seismic Retrofit	1,217,410
State, Urban, and Coastal Park	4,305
Veterans' Homes	35,205
Voting Modernization	36,305
Water Conservation	24,245
Water Conservation and Water Quality	34,940
Water Security, Clean Drinking Water, Coastal and Beach Protection	2,771,185
Total governmental activity	**80,295,870**
Business-type activity	
California Water Resources Development	241,835
Veterans Farm and Home Building	433,645
Total business-type activity	**675,480**
Total outstanding general obligation bonds	**80,971,350**
Unamortized bond premium	2,979,189
Total general obligation bonds payable	**$ 83,950,539**

Source: California State Treasurer's Office

Schedule of Pledged Revenue Coverage

For the Past Ten Fiscal Years
(amounts in thousands)

	June 30	Gross Revenue [1]	Operating Expenses [2]	Net Revenue Available for Debt Service	Debt Service Requirements [3] Principal	Interest	Total	Coverage
Housing Loans	2005	$ 121,063	$ 27,687	$ 93,376	$ 90,970	$ 34,813	$ 125,783	0.74
	2006	127,733	25,654	102,079	25,715	34,949	60,664	1.68
	2007	130,128	19,062	111,066	292,461	33,959	326,420	0.34
	2008	130,139	21,263	108,876	56,225	33,333	89,558	1.22
	2009	109,636	21,838	87,798	22,205	33,699	55,904	1.57
	2010	85,321	16,404	68,917	111,085	34,874	145,959	0.47
	2011	89,224	15,802	73,422	130,770	32,619	163,389	0.45
	2012	84,830	20,322	64,508	88,105	24,914	113,019	0.57
	2013	66,050	18,369	47,681	51,554	16,271	67,825	0.70
	2014	65,247	19,452	45,795	47,620	14,926	62,546	0.73
Water Resources	2005	$ 750,282	$ 501,225	$ 249,057	$ 56,645	$ 54,246	$ 110,891	2.25
	2006	949,691	721,541	228,150	55,461	49,785	105,246	2.17
	2007	951,590	694,060	257,530	70,860	123,376	194,236	1.33
	2008	989,275	773,362	215,913	100,945	114,213	215,158	1.00
	2009	914,837	694,598	220,239	80,347	130,219	210,566	1.04
	2010	1,042,843	837,459	205,384	97,360	124,296	221,656	0.93
	2011	1,096,196	880,540	215,656	108,870	117,668	226,538	0.95
	2012	1,045,812	852,404	193,408	116,150	121,804	237,954	0.81
	2013	1,127,195	822,637	304,558	124,155	145,660	269,815	1.13
	2014	973,508	798,653	174,855	114,775	107,727	222,502	0.78
Water Pollution Control	2005	$ 55,218	$ 4,082	$ 51,136	$ 21,425	$ 10,424	$ 31,849	1.61
	2006	64,740	10,615	54,125	22,185	9,812	31,997	1.69
	2007	78,564	3,387	75,177	22,850	9,178	32,028	2.35
	2008	71,404	4,521	66,883	23,585	8,422	32,007	2.09
	2009	59,923	4,416	55,507	22,930	7,747	30,677	1.80
	2010	53,365	9,880	43,485	23,655	6,928	30,583	1.42
	2011	49,585	4,876	44,709	24,390	5,996	30,386	1.47
	2012	50,183	2,849	47,334	24,285	4,984	29,269	1.62
	2013	51,642	1,055	50,587	45,755	533	46,288	1.09
	2014	54,968	1,739	53,229	13,000	355	13,355	3.99

(continued)

Source: California State Controllers's Office

[1] Total gross revenue includes non-operating interest revenue. Building authorities' revenue includes operating transfers in. The nature of the revenue pledged for each type of debt is as follows: investment and interest earnings for Housing Loans bonds and Water Pollution Control bonds; charges for services and sales for Water Resources bonds; power sales revenue for Electric Power bonds; rental revenue for Public Buildings Contruction bonds, High Technology Education bonds, CSU Channel Island Financing Authority bonds, and building authorities bonds; residence fees for California State University bonds; tobacco settlements and investment earnings for the Golden State Tobacco Securitization Corporation bonds; and federal transportation funds for Grant Anticipation Revenue Vehicles.

[2] Total operating expenses are exclusive of depreciation, interest expense, and amortization (recovery) of long-term prepaid charges. Prior to fiscal year 2012, bond issuance costs were amortized over the term of the bond. Beginning fiscal year 2012, bond issuance costs are operating expenses in the fiscal year incurred.

[3] Debt service requirements include principal and interest of revenue bonds.

[4] All revenue bonds have been redeemed.

[5] In fiscal year 2011, the California State University Fund was reclassified from a governmental fund to an enterprise fund.

[6] Federal transportation funds are the only source of state revenue to pay these bonds, and the state obligation to pay debt service on these bonds is limited to and dependent on receipt of the federal funds.

Schedule of Pledged Revenue Coverage (continued)

For the Past Ten Fiscal Years
(amounts in thousands)

	June 30	Gross Revenue [1]	Operating Expenses [2]	Net Revenue Available for Debt Service	Debt Service Requirements [3] Principal	Interest	Total	Coverage
Electric Power	2005	$ 5,655,000	$ 4,714,000	$ 941,000	$ 388,000	$ 480,000	$ 868,000	1.08
	2006	5,342,000	4,370,000	972,000	436,000	466,000	902,000	1.08
	2007	5,865,000	4,843,000	1,022,000	447,000	448,000	895,000	1.14
	2008	5,362,000	4,323,000	1,039,000	470,000	447,000	917,000	1.13
	2009	4,560,000	3,604,000	956,000	493,000	399,000	892,000	1.07
	2010	3,908,000	3,007,000	901,000	518,000	373,000	891,000	1.01
	2011	2,317,000	1,427,000	890,000	460,000	344,000	804,000	1.11
	2012	915,000	29,000	886,000	556,000	354,000	910,000	0.97
	2013	488,000	(408,000)	896,000	574,000	341,000	915,000	0.98
	2014	835,000	(46,000)	881,000	611,000	312,000	923,000	0.95
Public Buildings Construction	2005	$ 315,718	$ 13,837	$ 301,881	$ 290,210	$ 279,474	$ 569,684	0.53
	2006	384,442	9,832	374,610	332,345	318,098	650,443	0.58
	2007	396,895	3,699	393,196	365,953	324,246	690,199	0.57
	2008	384,816	33,566	351,250	342,582	331,355	673,937	0.52
	2009	366,151	78,489	287,662	360,559	335,248	695,807	0.41
	2010	430,069	120,565	309,504	377,998	367,055	745,053	0.42
	2011	423,775	507	423,268	394,490	383,185	777,675	0.54
	2012	426,960	13,211	413,749	405,585	384,400	789,985	0.52
	2013	616,041	13,479	602,562	554,985	395,073	950,058	0.63
	2014	431,890	14,403	417,487	412,085	439,888	851,973	0.49
High Technology Education [4]	2005	$ 36,737	$ 3,107	$ 33,630	$ 37,060	$ 30,387	$ 67,447	0.50
	2006	26,508	2,489	24,019	36,910	19,422	56,332	0.43
	2007	22,966	1,514	21,452	25,624	21,062	46,686	0.46
	2008	20,600	3,511	17,089	22,265	13,344	35,609	0.48
	2009	15,975	3,837	12,138	36,730	11,704	48,434	0.25
	2010	13,015	5,009	8,006	19,665	9,977	29,642	0.27
	2011	10,498	681	9,817	19,995	8,878	28,873	0.34
	2012	8,452	—	8,452	21,105	7,754	28,859	0.29
	2013	5,585	—	5,585	22,275	6,568	28,843	0.19
	2014	424	—	424	24,771	847	25,618	0.02
California State University [5]	2005	$ 395,396	$ 302,275	$ 93,121	$ 90,025	$ 52,696	$ 142,721	0.65
	2006	512,231	303,261	208,970	109,354	91,876	201,230	1.04
	2007	554,851	689,223	(134,372)	99,598	31,149	130,747	(1.03)
	2008	640,209	511,895	128,314	105,229	115,928	221,157	0.58
	2009	811,454	261,628	549,826	43,572	129,238	172,810	3.18
	2010	599,572	577,765	21,807	47,815	151,988	199,803	0.11
	2011	3,722,414	5,455,059	(1,732,645)	56,344	172,231	228,575	(7.58)
	2012	4,165,118	5,770,880	(1,605,762)	138,535	174,914	313,449	(5.12)
	2013	4,215,258	5,754,800	(1,539,542)	99,340	181,969	281,309	(5.47)
	2014	4,505,589	6,376,502	(1,870,913)	89,453	173,424	262,877	(7.11)

	June 30	Gross Revenue [1]	Operating Expenses [2]	Net Revenue Available for Debt Service	Debt Service Requirements [3] Principal	Interest	Total	Coverage
CSU Channel Island Financing Authority [4]	2005	$ 8,149	$ 10	$ 8,139	$ —	$ 5,541	$ 5,541	1.47
	2006	8,377	11	8,366	—	6,123	6,123	1.37
	2007	7,397	8	7,389	—	6,951	6,951	1.06
	2008	245	13	232	—	556	556	0.42
Building Authorities	2005	$ 86,624	$ —	$ 86,624	$ 42,296	$ 38,994	$ 81,290	1.07
	2006	94,985	—	94,985	43,862	81,253	125,115	0.76
	2007	81,342	68	81,274	45,437	29,228	74,665	1.09
	2008	79,077	68	79,009	47,475	27,260	74,735	1.06
	2009	78,733	68	78,665	48,594	25,028	73,622	1.07
	2010	76,535	—	76,535	50,948	34,058	85,006	0.90
	2011	63,168	—	63,168	51,957	20,071	72,028	0.88
	2012	57,386	—	57,386	36,473	22,889	59,362	0.97
	2013	53,441	—	53,441	38,400	18,390	56,790	0.94
	2014	53,157	—	53,157	39,895	29,882	69,777	0.76
Golden State Tobacco Securitization Corporation	2005	$ 427,159	$ 305	$ 426,854	$ 55,500	$ 330,652	$ 386,152	1.11
	2006	396,987	—	396,987	61,320	307,824	369,144	1.08
	2007	413,246	—	413,246	133,555	276,965	410,520	1.01
	2008	445,097	—	445,097	129,120	326,631	455,751	0.98
	2009	493,448	—	493,448	116,960	320,679	437,639	1.12
	2010	393,487	—	393,487	138,260	316,038	454,298	0.87
	2011	361,974	—	361,974	60,230	315,268	375,498	0.96
	2012	368,853	—	368,853	65,765	312,815	378,580	0.97
	2013	555,392	—	555,392	623,510	308,056	931,566	0.60
	2014	355,918	—	355,918	50,910	325,884	376,794	0.94
Toll Bridge Seismic Retrofit [4]	2005	$ 131,791	$ 97,386	$ 34,405	$ —	$ 28,615	$ 28,615	1.20
Grant Anticipation Revenue Vehicles [6]	2005	$ 65,134	$ —	$ 65,134	$ 41,545	$ 23,589	$ 65,134	1.00
	2006	72,338	—	72,338	47,845	24,493	72,338	1.00
	2007	72,149	—	72,149	49,190	22,959	72,149	1.00
	2008	71,945	—	71,945	50,985	20,960	71,945	1.00
	2009	77,193	—	77,193	55,275	21,918	77,193	1.00
	2010	83,272	—	83,272	62,335	20,937	83,272	1.00
	2011	84,294	—	84,294	64,785	19,509	84,294	1.00
	2012	84,290	—	84,290	67,730	16,560	84,290	1.00
	2013	84,296	—	84,296	70,990	13,306	84,296	1.00
	2014	84,289	—	84,289	74,400	9,889	84,289	1.00

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Demographic and Economic Information

The ***demographic and economic*** schedules contain trend information to help the reader understand the environment in which the State's financial activities occur. This section includes the following demographic and economic schedules.

Schedule of Demographic and Economic Indicators

Schedule of Employment by Industry

Schedule of Demographic and Economic Indicators

For the Past Ten Calendar Years

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Population (in thousands)										
California [1]	35,753	35,986	36,247	36,553	36,856	37,077	37,309	37,570	37,867	38,164
% Change	1.0%	0.7%	0.7%	0.8%	0.8%	0.6%	0.6%	0.7%	0.8%	0.8%
United States [1]	293,046	295,753	298,593	301,580	304,375	307,007	309,326	311,583	313,874	316,129
% Change	0.9%	0.9%	1.0%	1.0%	0.9%	0.9%	0.8%	0.7%	0.7%	0.7%
Total personal income (in millions)										
California	$ 1,312,227	$ 1,387,661	$ 1,495,533	$ 1,566,400	$ 1,610,698	$ 1,516,677	$ 1,564,209	$ 1,645,138	$ 1,768,039	$ 1,856,614
% Change	6.4%	5.7%	7.8%	4.7%	2.8%	(5.8%)	3.1%	5.2%	7.5%	5.0%
United States	$ 9,928,790	$ 10,476,669	$ 11,256,516	$ 11,900,562	$ 12,451,660	$ 11,852,715	$ 12,308,496	$ 12,949,905	$ 13,729,063	$ 14,151,427
% Change	6.0%	5.5%	7.4%	5.7%	4.6%	(4.8%)	3.8%	5.2%	6.0%	3.1%
Per capita personal income										
California [2]	$ 36,703	$ 38,561	$ 41,259	$ 42,853	$ 43,702	$ 40,906	$ 41,926	$ 43,789	$ 46,477	$ 48,434
% Change	5.3%	5.1%	7.0%	3.9%	2.0%	(6.4%)	2.5%	4.4%	6.1%	4.2%
United States [2]	$ 33,881	$ 35,424	$ 37,699	$ 39,461	$ 40,909	$ 38,607	$ 39,791	$ 41,560	$ 43,735	$ 44,765
% Change	5.0%	4.6%	6.4%	4.7%	3.7%	(5.6%)	3.1%	4.4%	5.2%	2.4%
Labor force and employment (in thousands)										
California										
Civilian labor force	17,444	17,545	17,687	17,921	18,203	18,208	18,316	18,385	18,511	18,573
Employed	16,355	16,592	16,821	16,961	16,890	16,145	16,052	16,227	16,740	17,044
Unemployed	1,090	953	865	960	1,313	2,064	2,265	2,158	1,771	1,530
Unemployment rate	6.2%	5.4%	4.9%	5.4%	7.2%	11.3%	12.4%	11.7%	9.6%	8.2%
United States employment rate	5.5%	5.1%	4.6%	4.6%	5.8%	9.3%	9.6%	8.9%	8.1%	7.4%

Source: Economic Research Unit, California Department of Finance; Bureau of Economic Analysis, United States Department of Commerce; Labor Market Information Division, California Employment Development Department; Bureau of Labor Statistics, United States Department of Labor.

[1] Some prior years were updated based on more current information.

[2] Calculated by dividing total personal income by population.

Schedule of Employment by Industry

For Calendar Years 2004 and 2013

	2004		2013	
	Employees	Percent of Total State Employment	Employees	Percent of Total State Employment
Industry				
Services	5,798,400	38.3 %	6,824,500	43.7 %
Government				
Federal	195,400	1.3	185,400	1.2
Military	55,600	0.4	60,100	0.4
State and Local	2,146,700	14.2	2,124,600	13.7
Retail trade	1,617,800	10.7	1,601,400	10.3
Manufacturing	1,523,400	10.1	1,250,900	8.0
Information, finance, and insurance	1,101,200	7.3	974,300	6.3
Construction and utilities	906,500	6.0	695,200	4.5
Wholesale trade	653,000	4.3	697,400	4.5
Transportation and warehousing	426,700	2.8	444,700	2.9
Farming	386,400	2.6	411,400	2.6
Real estate	276,400	1.8	258,400	1.7
Natural resources and mining	22,800	0.2	30,600	0.2
Total	**15,110,300**	**100.0 %**	**15,558,900**	**100.0 %**

Source: Labor Market Information Division, California Employment Development Department

Operating Information

The ***operating information*** schedules assist the reader in evaluating the size, efficiency, and effectiveness of the State's government. This section includes the following operating information schedules.

Schedule of Full-time Equivalent State Employees by Function

Schedule of Operating Indicators by Function

Schedule of Capital Asset Statistics by Function

Schedule of Full-Time Equivalent State Employees by Function

For the Past Ten Fiscal Years

Fiscal Year	General Government	Education	Health and Human Services	Resources	State and Consumer Services	Business, Transportation, and Housing	Correctional Programs	Total
2005	19,884	119,162	50,490	18,935	15,023	41,450	48,740	313,684
2006	20,336	121,973	49,569	19,076	15,126	41,342	50,171	317,593
2007	21,035	134,974	49,533	19,677	15,530	41,314	53,321	335,384
2008	21,825	134,832	49,330	20,868	15,840	42,139	58,284	343,118
2009	22,347	135,720	50,996	21,985	16,350	42,254	60,957	350,609
2010	30,390	133,642	43,663	22,223	15,868	40,590	59,401	345,777
2011	32,535	138,017	48,638	23,611	17,043	44,844	67,272	371,960

Fiscal Year	General [1] Government	Education	Health and Human Services	Resources	Business, [1] Consumer Services, and Housing	Transportation [1]	Correctional Programs	Total
2012	44,673	131,039	46,431	24,199	6,236	41,758	62,472	356,808
2013 [2]	43,241	132,492	43,431	23,796	5,395	39,222	58,742	346,319
2014	43,858	136,244	44,343	24,156	5,409	39,015	60,871	353,896

Source: Annual Governor's Budget Summary, California Department of Finance

Note: The number of full-time equivalent employees is calculated by counting each person who works full time as one full-time equivalent and those who work part time as fractional equivalents based on time worked.

[1] Effective July 1, 2013, under the Governor's 2012 Reorganization Plan No. 2, a significant reorganization took place that impacted previously reported functions. The Government Operations Agency, including but not limited to Franchise Tax Board, Department of General Services, and the Public Employees' Retirement System, was created and added to the General Government function. Also, the business and housing components under the previously reported Business, Transportation, and Housing function merged with the State and Consumer Services function and the remaining transportation components now comprise the Transportation Agency. Information reported under the new functions are not comparable to that of prior years.

[2] Some amounts were updated based on more current information.

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Schedule of Operating Indicators by Function

For the Past Ten Fiscal Years

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
General Government										
State Lottery										
Total revenue [1]	$ 3,334	$ 3,585	$ 3,318	$ 3,050	$ 2,955	$ 3,041	$ 3,439	$ 4,371	$ 4,446	$ 5,035
Allocation to Education Fund [1]	$ 1,149	$ 1,259	$ 1,177	$ 1,069	$ 1,028	$ 1,072	$ 1,103	$ 1,300	$ 1,262	$ 1,328
Judicial Council of California										
Supreme Court [2, 10]										
Cases filed	8,990	9,261	8,988	10,521	9,274	9,562	10,145	9,237	7,813	N/A
Cases disposed	8,535	9,878	9,247	10,440	9,513	9,439	10,063	9,739	8,269	N/A
Courts of Appeal										
Notices of appeal filed [3, 10]										
Civil	6,142	6,018	6,116	5,913	5,958	6,122	6,258	6,505	6,052	N/A
Criminal	6,312	6,516	6,508	6,681	6,819	6,857	6,877	6,387	6,004	N/A
Juvenile	2,626	2,715	2,880	2,900	2,858	2,759	2,106	2,830	2,713	N/A
Trial Courts										
Total civil cases [4, 10]										
Filings	1,426,822	1,418,722	1,462,820	1,582,092	1,729,648	1,647,817	1,574,569	1,454,810	1,352,964	N/A
Dispositions	1,304,924	1,267,534	1,286,736	1,280,184	1,537,243	1,530,502	1,599,388	1,432,231	1,322,639	N/A
Department of Food and Agriculture										
Milk production (million lbs.) [5, 10]	37,564	38,830	40,683	41,203	39,512	40,385	41,462	41,801	41,256	N/A
Farm land (thousand acres) [5, 10]	25,900	25,700	25,400	25,400	25,400	25,400	25,400	25,600	25,500	N/A
Education										
Public Colleges and Universities										
Fall enrollment [10]										
Community Colleges [10]	1,607,458	1,644,104	1,723,782	1,823,736	1,822,839	1,747,236	1,655,077	1,582,308	1,582,443	N/A
California State University	405,282	417,156	433,017	437,008	433,054	412,372	426,534	436,560	446,530	N/A
University of California [10]	209,080	214,298	220,034	226,040	231,853	234,464	236,691	238,686	244,126	N/A
K-12 Schools										
Fall enrollment										
Public	6,322,217	6,312,103	6,286,943	6,275,469	6,252,011	6,190,425	6,217,002	6,220,993	6,226,989	6,236,672
Private	591,056	594,597	583,794	564,734	536,393	531,111	515,143	497,019	516,119	511,286

(continued)

Source: California State Lottery; Judicial Council of California; U.S. Department of Agriculture, National Agricultural Statistics Service; California Departments of the California Highway Patrol, Finance, Fish and Wildlife, Education, Public Health, Motor Vehicles, Transportation, and Corrections and Rehabilitation; Employment Development Department; California Energy Commission; and Franchise Tax Board.

[1] Dollars in millions.
[2] Includes death penalty cases, habeas related to automatic appeals, petitions for review, original proceedings, and State Bar matters.
[3] Includes only one notice of appeal per case.
[4] Includes personal injury, property damage, wrongful death, small claims, family law, probate, and other cases.
[5] Data based on calendar year.
[6] Total nonfarm and farm.
[7] Items reported by license year as of December 2014.
[8] Data compiled from a 10% sample of California licensed drivers.
[9] A center-line mile is measured by the yellow dividing strip that runs down the middle of the road, regardless of the number of lanes on each side.
[10] Some prior years were updated based on more current information.
[11] Projected

N/A=Not available

Schedule of Operating Indicators by Function (continued)

For the Past Ten Fiscal Years

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Health and Human Services										
Department of Public Health										
Vital statistics										
Live births [5,10]	548,700	562,157	566,137	551,567	526,774	509,979	502,023	503,788	494,390	500,748 [11]
Department of Social Services										
Total Food Stamp households (avg. per month)	792,617	809,782	823,335	892,992	1,067,358	1,340,857	1,576,042	1,757,387	1,898,283	2,004,016
Employment Development Department										
Number of employed [5, 6, 10]	15,440,600	15,613,300	15,691,100	15,142,000	14,326,300	14,476,400	14,614,600	15,240,400	16,109,200	N/A
Resources										
Department of Fish and Wildlife										
Sport fishing licenses sold [7, 10]	2,870,727	2,924,325	3,003,783	2,857,236	2,838,776	2,410,008	2,483,680	2,580,762	2,539,244	2,485,293
Hunting licenses sold [7, 10]	1,625,078	1,655,760	1,718,657	1,670,190	1,679,864	1,677,864	1,863,200	1,988,753	2,032,792	1,912,151
California Energy Commission										
Electrical energy generation										
plus net imports (gigawatt hours) [10]	289,177	298,454	304,823	307,448	299,101	291,310	293,875	302,113	296,569	N/A
State and Consumer Services										
Franchise Tax Board										
Personal Income Tax [5, 10]										
Number of tax returns filed	14,087,896	14,382,677	15,016,273	14,806,335	14,638,204	14,814,427	15,042,359	15,152,800	15,487,100	N/A
Taxable income [1]	$ 767,877	$ 812,008	$ 872,869	$ 799,490	$ 729,658	$ 794,758	$ 838,347	$ 948,523	$ 949,655	N/A
Total tax liability [1]	$ 43,131	$ 45,716	$ 49,693	$ 41,676	$ 38,870	$ 44,472	$ 43,921	$ 58,652	$ 55,679	N/A
Corporation Tax [5]										
Number of tax returns filed	651,060	684,363	709,937	722,358	727,675	738,224	754,315	784,086	N/A	N/A
Income reported for taxation [1]	$ 115,474	$ 140,325	$ 121,843	$ 67,921	$ 55,367	$ 96,965	$ 93,456	$ 96,772	N/A	N/A
Total tax liability [1]	$ 8,680	$ 9,992	$ 9,414	$ 9,106	$ 7,858	$ 8,604	$ 7,808	$ 6,921	N/A	N/A
Business and Transportation										
Department of Motor Vehicles										
Motor vehicle registration	33,363,963	33,882,029	32,047,124	31,920,649	31,799,398	31,987,821	31,802,483	31,946,422	32,903,847	N/A
License issued by age [5, 8]										
Under age 18	277,168	268,199	262,415	244,481	229,545	218,997	227,069	224,809	221,385	N/A
Between 18-80	22,155,604	22,450,786	22,804,927	22,922,361	22,910,011	23,001,119	23,150,222	23,462,971	23,824,697	N/A
Over age 80	494,577	518,102	562,518	552,150	560,491	579,397	579,207	602,508	597,350	N/A
California Highway Patrol										
Total number of DUI arrests [5, 10]	89,946	94,251	92,270	97,019	95,135	89,814	86,901	79,993	76,860	N/A
Department of Transportation										
Highway center-line miles – rural [5, 9]	11,090	10,821	10,830	10,811	10,808	10,785	10,780	10,784	10,315	N/A
Highway center-line miles – urban [5, 9]	4,123	4,422	4,439	4,393	4,384	4,375	4,353	4,363	4,789	N/A
Correctional Programs										
Department of Corrections and Rehabilitation										
Division of Adult Institutions										
Institution population at December 31 each year	166,723	171,310	170,452	170,283	167,922	162,200	147,181	132,768	134,333	134,431
Division of Juvenile Justice										
Institution population at June 30 each year	3,348	2,962	2,531	1,877	1,589	1,474	1,263	922	712	675

(concluded)

Schedule of Capital Asset Statistics by Function

For the Past Ten Fiscal Years

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
General Government										
Department of Food and Agriculture										
Vehicles and mobile equipment [1]	903	907	915	818	803	746	809	804	792	747
Square footage of structures (in thousands)	467	453	453	453	466	466	466	466	455	455
Department of Justice										
Vehicles and mobile equipment	969	968	966	826	870	816	677	531	527	520
Department of Military										
Vehicles and mobile equipment	152	210	182	206	182	208	249	233	211	211
Square footage of structures (in thousands)	3,348	3,388	3,388	3,387	3,383	3,154	3,530	3,511	3,623	4,019
Department of Veterans Affairs										
Veterans homes	3	3	3	3	5	6	6	6	8	8
Vehicles and mobile equipment	139	111	248	251	120	113	132	143	267	285
Square footage of structures (in thousands)	1,598	1,598	1,598	1,598	1,683	1,600	2,086	2,086	2,488	2,543
Education										
California State University										
Vehicles and mobile equipment [1, 2]	N/A	601	3,343	3,994	4,015	4,338	4,415	4,415	4,466	4,619
Campuses	23	23	23	23	23	23	23	23	23	23
Square footage of structures (in thousands)	59,588	59,921	62,198	63,971	66,686	69,049	71,287	73,785	73,866	73,316
Health and Human Services										
Department of Developmental Services										
Vehicles and mobile equipment	836	655	829	839	701	569	818	789	632	424
Developmental centers	7	7	7	7	7	5	5	5	4	4
Square footage of structures (in thousands)	5,185	5,181	5,181	5,186	5,187	5,185	5,294	5,294	5,279	5,308
Department of State Hospitals [3]										
Vehicles and mobile equipment	439	655	629	638	658	665	709	718	699	886
State hospitals	4	5	5	5	5	5	5	5	7	7
Square footage of structures (in thousands)	4,626	4,673	6,359	6,364	6,348	6,331	6,331	6,336	6,457	6,460

(continued)

Sources: California Department of General Services (DGS)

[1] For fiscal year 2008, DGS was not able to obtain complete data from the agency.
[2] Prior to fiscal year 2006, DGS did not require California State University to report its vehicles.
[3] In fiscal year 2012, portions of the Department of Mental Health became the Department of State Hospitals.
[4] In fiscal year 2008, California Highway Patrol purchased numerous vehicles, and in their physical count also included motorcycles, which had not been reported for previous years.
[5] In fiscal year 2006, Department of Corrections and Rehabilitation merged with Department of Youth Authority.

N/A = not available

Schedule of Capital Asset Statistics by Function (continued)

For the Past Ten Fiscal Years

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Resources										
Department of Fish and Wildlife										
Vehicles and mobile equipment	3,157	3,182	3,311	2,868	3,640	2,630	3,180	3,012	2,896	2,954
Square footage of structures (in thousands)	1,108	1,112	1,120	1,192	1,269	1,301	1,313	1,317	1,317	1,311
Department of Forestry and Fire										
Vehicles and mobile equipment	3,016	2,572	2,945	3,043	3,067	2,598	2,804	2,810	2,845	2,748
Square footage of structures (in thousands)	3,892	3,885	3,883	3,869	3,851	3,947	3,943	3,935	3,641	3,632
Department of Parks and Recreation										
Vehicles and mobile equipment	3,044	2,742	2,988	3,023	3,220	3,102	3,715	4,200	3,311	3,489
State Parks	278	278	276	279	278	278	279	280	280	279
Acres of state park land (in thousands)	1,506	1,552	1,235	1,248	1,331	1,365	1,334	1,333	1,590	1,590
Square footage of structures (in thousands)	6,348	6,350	6,350	6,350	6,350	6,350	6,433	6,623	6,598	6,751
State Lands Commission										
Vehicles and mobile equipment	56	49	51	49	57	47	50	42	42	41
Acres of land (in thousands)	4,498	4,496	4,492	4,491	4,491	4,491	4,491	4,491	4,489	4,489
State and Consumer Services										
Department of Consumer Affairs										
Vehicles and mobile equipment	628	1,050	640	726	718	574	578	574	518	554
Department of General Services										
Vehicles and mobile equipment	6,883	6,894	7,330	7,558	6,736	5,761	5,670	4,991	5,226	5,053
Square footage of structures (in thousands)	15,995	17,350	18,084	18,084	18,084	18,394	18,602	19,180	19,098	19,367
Business and Transportation										
California Highway Patrol										
Vehicles and mobile equipment [4]	3,930	4,105	4,655	5,228	5,914	5,422	5,337	5,013	5,341	5,170
Square footage of structures (in thousands)	1,147	1,087	1,110	1,118	1,118	1,135	1,135	1,149	1,149	1,166
Department of Motor Vehicles										
Vehicles and mobile equipment	395	373	458	434	417	366	366	366	294	295
Square footage of structures (in thousands)	1,853	1,827	1,866	1,848	1,855	1,855	1,842	1,842	1,842	1,845
Department of Transportation										
Vehicles and mobile equipment	10,856	11,048	11,130	11,098	13,346	11,302	12,759	12,690	11,767	11,596
Square footage of structures (in thousands)	6,284	6,632	6,618	6,229	6,434	6,444	6,519	8,131	8,170	7,960
Correctional Programs										
Department of Corrections and Rehabilitation										
Vehicles and mobile equipment [1]	7,006	6,451	6,657	7,908	7,778	5,787	5,985	5,952	5,156	5,137
Prisons and juvenile facilities [5]	32	32	41	41	39	39	39	39	37	37
Square footage of structures (in thousands)	40,472	40,622	40,777	40,831	40,852	41,228	41,399	41,399	40,606	40,726

(concluded)

STATE OF CALIFORNIA

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California State Controller

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